

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

- ☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
- OR
- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019
- OR
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.
- OR
- ☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number: 001- 37750

Yintech Investment Holdings Limited

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

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People's Republic of China**

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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
American depositary shares (each representing 20 ordinary shares, par value US\$0.00001 per share)	YIN	The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)
Ordinary shares, par value US\$0.00001 per share		The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)

* Not for trading, but only in connection with the listing on The NASDAQ Global Select Market of American depositary shares. Currently, one ADS represents 20 ordinary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

[None]

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

[None]

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

1,431,078,855 ordinary shares, par value US\$0.00001 per share, as of December 31, 2019.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards* provided pursuant to Section 13(a) of the Exchange Act. ☐

*The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

☒ U.S. GAAP

☐ International Financial Reporting Standards as issued by the International Accounting Standards Board

☐ Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☐ No ☐

TABLE OF CONTENTS

	<u>Page</u>
Introduction	1
Forward-Looking Statements	2
Part I	3
Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS	3
Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE	3
Item 3. KEY INFORMATION	3
Item 4. INFORMATION ON THE COMPANY	36
Item 4A. UNRESOLVED STAFF COMMENTS	60
Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	60
Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	79
Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	89
Item 8. FINANCIAL INFORMATION	91
Item 9. THE OFFER AND LISTING	92
Item 10. ADDITIONAL INFORMATION	93
Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	99
Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	100
Part II	101
Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	101
Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	101
Item 15. CONTROLS AND PROCEDURES	101
Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT	103
Item 16B. CODE OF ETHICS	103
Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	103
Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	103
Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	103
Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT	103
Item 16G. CORPORATE GOVERNANCE	104
Item 16H. MINE SAFETY DISCLOSURE	104
Part III	104
Item 17. FINANCIAL STATEMENTS	104
Item 18. FINANCIAL STATEMENTS	104
Item 19. EXHIBITS	104

INTRODUCTION

Except where the context otherwise requires and for purposes of this annual report on Form 20-F only:

- “active account” refers to a tradable account that executed at least one trade through us in a given period;
- “ADSs” refers to our American depositary shares, each of which represents 20 ordinary shares, and “ADRs” refers to the American depositary receipts that evidence our ADSs; “BVI” refers to the British Virgin Islands;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for purposes of this annual report, Hong Kong, Macau and Taiwan;
- “equity” refers to, with respect to online commodities trading, the value of a trading participant’s account, which is the net aggregate of its deposits, withdrawals, closed positions and open positions;
- “hedge” refers to economic hedging transactions we enter into with various counterparties to manage our market risk exposure;
- “liquidation” refers to, with respect to online commodities trading, the mandatory termination and settlement of a trading participant’s positions by the exchanges;
- “maximum leverage ratio” refers to, with respect to online spot commodity trading, the maximum ratio set by exchanges for the notional value of a position divided by the deposit required for such a position;
- “ordinary shares” or “shares” refers to our ordinary shares, par value US\$0.00001 per share;
- “our company,” “we,” “us,” “our,” or “Yintech” refers to Yintech Investment Holdings Limited, a Cayman Islands exempted company with limited liability, and except where the context otherwise requires, all of its subsidiaries or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries were engaged in and which was subsequently assumed by it;
- “principal position” refers to the trading positions we have by serving as counterparty to our customers’ trades;
- “RMB,” “CNY” or “Renminbi” refers to the legal currency of China;
- “spread fee” refers to the difference, as set by the exchanges, between customers’ buying and selling prices quoted by the exchanges, which can be expressed either as a fixed amount per weight unit or a fixed percentage of the notional transaction value;
- “tradable account” refers to a customer account that has been activated for trading of spot and futures commodities contracts and has remained tradable as of the end of a given period; and
- “U.S. dollars,” “US\$,” “USD” or “dollars” refers to the legal currency of the United States.

This annual report on Form 20-F contains translations of certain Renminbi (“RMB” or “CNY”) amounts into U.S. dollars (“USD”) at specified rates. For amounts not recorded in our consolidated financial statements included elsewhere in this annual report, unless otherwise stated, all translations from Renminbi to U.S. dollars were made at the exchange rate of RMB6.9618 to US\$1.00, as set forth in the H.10 statistical release of the Federal Reserve Board on December 31, 2019. We make no representation that the RMB or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or RMB, as the case may be, at any particular rate or at all. On April 13, 2020, the noon buying rate was RMB7.0501 to US\$1.00. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that are based on our management’s beliefs and assumptions and on information currently available to us. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact in this annual report are forward-looking statements. These forward-looking statements can be identified by words or phrases such as “may,” “could,” “will,” “should,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “project” or “continue” or the negative of these terms or other comparable terminology. The forward-looking statements included in this annual report relate to, among others:

- our goals and strategies;
- our future business development, financial condition and results of operations;
- expected changes in our revenues and certain cost of expense items;
- our ability to attract and retain our customers and further enhance our brand recognition;
- our ability to provide new products and services;
- trends and competition in our industry;
- fluctuations in general economic and business conditions in the markets in which we operate; and
- relevant government policies and regulations relating to our industry.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Our actual results could be materially different from and worse than our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in “Item 3. Key Information—D. Risk Factors” and elsewhere in this annual report. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not Applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

Item 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following table presents the selected consolidated financial information for our company. The consolidated statements of comprehensive income data for the four years ended December 31, 2016, 2017, 2018 and 2019 and the consolidated balance sheet data as of December 31, 2016, 2017, 2018 and 2019 have been derived from our audited consolidated financial statements. The following selected consolidated statement of operations data for the years ended December 31, 2016, 2017, 2018 and 2019 and the selected consolidated balance sheet data as of December 31, 2016, 2017, 2018 and 2019 have been derived from our audited consolidated financial statements. The selected consolidated financial data as of December 31, 2018 and 2019 and for each of the years in the three-year period ended December 31, 2019, are derived from our audited consolidated financial statements included elsewhere in this annual report beginning on page F-1. The selected consolidated financial data as of December 31, 2016 and 2017 and for the year ended December 31, 2016 are derived from our consolidated financial statements not included in this annual report. Our historical results do not necessarily indicate results expected for any future period. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes, and “Item 5. Operating and Financial Review and Prospects” below. Our audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

Consolidated Statements of Comprehensive Income Data

	For the Year Ended December 31,				
	2016 RMB	2017 RMB	2018 RMB	2019 RMB	US\$ (unaudited)
(in thousands, except per share data)					
Revenues					
Commissions and fees, net	2,547,043	2,198,575	941,868	1,399,575	201,036
Trading gains, net	12,563	40,554	34,333	207,857	29,857
Interest and investment income	4,365	5,406	18,128	35,000	5,027
Other revenues	155,570	204,411	100,415	49,373	7,092
Total revenues	2,719,541	2,448,946	1,094,744	1,691,805	243,012
Expenses					
Commission expense	—	—	(2,012)	(576)	(83)
Employee compensation and benefits	(839,024)	(1,066,553)	(808,292)	(841,205)	(120,832)
Advertising and promotion	(554,291)	(424,865)	(223,265)	(339,755)	(48,803)
Information technology and communications	(40,905)	(41,170)	(32,421)	(33,119)	(4,757)
Occupancy and equipment rental	(76,594)	(123,680)	(115,810)	(98,956)	(14,214)
Taxes and surcharges	(30,748)	(21,080)	(6,455)	(5,893)	(846)
Intangible assets amortization	(19,081)	(56,547)	(56,515)	(28,053)	(4,030)
Impairment of goodwill and intangible assets	—	—	(639,000)	—	—
Other expenses	(107,766)	(78,509)	(83,334)	(85,755)	(12,318)
Total expenses	(1,668,409)	(1,812,404)	(1,967,104)	(1,433,312)	(205,883)
Income/(loss) before income taxes	1,051,132	636,542	(872,360)	258,493	37,129
Income tax expense	(125,430)	(169,556)	(1,028)	(127,925)	(18,375)
Net income/(loss)	925,702	466,986	(873,388)	130,568	18,754
Less: Net loss attributable to non-controlling interests	(4,966)	(13,678)	(10,350)	44,888	6,448
Net income/(loss) attributable to Yintech	930,668	480,664	(863,038)	85,680	12,306
Earnings/(loss) per share					
Basic	0.79	0.34	(0.60)	0.06	0.01
Diluted	0.75	0.33	(0.60)	0.06	0.01
Other comprehensive income/(loss)					
Unrealized gains/(Loss) on available-for-sale investments, net of tax	—	(800)	—	1,033	149
Foreign currency translation adjustment	42,696	(18,714)	22,538	2,348	338
Comprehensive income/(loss)	968,398	447,472	(850,850)	133,949	19,241
Comprehensive (loss)/gain attributable to non-controlling interests	(4,966)	(13,678)	(10,350)	45,165	6,488
Comprehensive income/(loss) attributable to Yintech	973,364	461,150	(840,500)	88,784	12,753

Consolidated Balance Sheet Data

	As of December 31,				
	2016 RMB	2017 RMB	2018 RMB	2019 RMB	US\$ (unaudited)
	(in thousands)				
Assets					
Cash	1,541,241	690,478	257,789	209,507	30,094
Entrusted bank balances held on behalf of customers	—	150,452	73,226	89,157	12,807
Investment Securities	218,940	1,212,006	1,479,109	1,895,874	272,325
Deposits with clearing organizations	265,807	1,152	34,215	20,330	2,920
Derivative assets	45,569	—	—	—	—
Amount due from related parties	—	—	25,000	20,000	2,873
Equity method investment	—	—	24,730	24,845	3,569
Equipment and leasehold improvements	37,594	39,214	24,316	13,844	1,989
Deferred tax assets	59,551	34,431	31,239	27,206	3,908
Goodwill	1,069,603	1,096,972	637,147	637,835	91,619
Accounts receivable	109,497	171,156	180,230	164,391	23,613
Operating lease right-of-use assets	—	—	—	34,476	4,952
Intangible assets	417,257	433,983	330,247	302,613	43,468
Other assets	154,822	311,281	155,648	225,302	32,363
Total assets	3,919,881	4,141,125	3,252,896	3,665,380	526,500
Liabilities and Shareholders' Equity					
Accounts payable (including accounts payable of the consolidated variable interest entities ("VIE") and VIE's subsidiaries without recourse to the Company of RMB2,283 thousand and RMB768 thousand as of December 31, 2018 and 2019, respectively)	15,274	197,516	119,469	114,552	16,454
Accrued employee benefits (including accrued employee benefits of the consolidated VIE and VIE's subsidiaries without recourse to the Company of RMB19,708 thousand and RMB58,417 thousand as of December 31, 2018 and 2019, respectively)	231,376	142,085	189,042	271,965	39,065
Income tax payable (including income tax payable of the consolidated VIE and VIE's subsidiaries without recourse to the Company of RMB11,042 thousand and RMB34,855 thousand as of December 31, 2018 and 2019, respectively)	145,049	73,458	95,415	171,793	24,677
Deferred tax liabilities (including deferred tax liabilities of the consolidated VIE and VIE's subsidiaries without recourse to the Company of RMB 38,287 thousand and RMB 42,177 thousand as of December 31, 2018 and 2019, respectively)	108,694	106,315	79,618	118,469	17,017
Operating lease liabilities	—	—	—	30,846	4,431
Amount due to related parties	—	—	—	4,426	636
Other liabilities (including other liabilities of the consolidated VIE and VIE's subsidiaries without recourse to the Company of RMB 62,645 thousand and RMB 127,320 thousand as of December 31, 2018 and 2019 respectively)	103,507	45,553	144,392	181,883	26,126
Total liabilities	603,900	564,927	627,936	893,934	128,406
Shareholders' Equity					
Ordinary shares (USD 0.00001 par value. 3,000,000,000 shares authorized, 1,468,059,155 shares issued and 1,428,942,175 shares outstanding as of December 31, 2018; 1,431,840,215 shares issued and 1,431,078,855 shares outstanding as of December 31, 2019)	90	93	96	95	14
Treasury stock (39,116,980 and 761,360 shares as of December 31, 2018 and 2019, respectively)	—	(36,973)	(111,169)	(1,737)	(250)
Additional paid-in capital	2,236,778	2,058,312	1,927,854	1,830,960	263,001
Retained earnings	1,035,861	1,516,525	652,687	738,367	106,060
Accumulated other comprehensive income	43,937	24,423	47,761	50,865	7,306
Equity attributable to non-controlling interests	(685)	13,818	107,731	152,896	21,963
Total shareholders' equity	3,315,981	3,576,198	2,624,960	2,771,446	398,094
Total liabilities and shareholders' equity	3,919,881	4,141,125	3,252,896	3,665,380	526,500

Summary Operating Data

The following table presents our summary operating data for the periods indicated:

	As of December 31,		
	2017	2018	2019
Tradable accounts ⁽¹⁾	108,850	126,539	151,553

(1) Tradable accounts refer to accounts that have been activated and have remained tradable as of the end of the period.

	For the Year Ended December 31,		
	2017	2018	2019
Active accounts ⁽²⁾	121,410	40,240	42,902

	RMB	RMB	RMB	US\$ (unaudited)
Customer trading volume (in millions)	3,841,069	1,730,683	2,665,578	382,886

(2) Active accounts refer to tradable accounts that have executed at least one trade during the period.

EXCHANGE RATE INFORMATION

Our business is primarily conducted in China and substantially all of our revenues and expenses are denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. On April 13, 2020, the daily exchange rate reported by the Federal Reserve Board was RMB7.0501 to US\$1.00.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risks Related to Our Business and Industry

A change in trading rules of the trading exchanges could adversely affect our revenue and profitability.

We are under the supervision of various trading exchanges such as the Shanghai Gold Exchange (“SGE”), Dalian Commodity Exchange and China Financial Futures Exchange, etc., which provide trading platforms and set trading model and rules for all participants on the exchanges. Those exchanges formulate their trading rules covering various aspects of trading, including but not limited to, commission and fee rates, leverage ratio, trade settlement procedures, membership qualifications, risk control mechanism, as well as information management. Those trading exchanges usually adjust their trading rules in response to changing market conditions and changes to these rules may adversely affect our revenue or business. In addition, futures companies have discretion to set the fee rates and the adjustments of the fee rates will have an impact on our income and profitability.

Any material changes in the trading rules of those exchanges may affect our business model, revenue composition, expenses associated with our operation, as well as costs to comply with new rules, which may adversely affect our results of operations and business. For instance, the maximum level of our trading commissions generated from spot commodities services we provided on the SGE is set by the SGE. If the SGE was to reduce such fee levels, for one purpose or another, our revenue and profit may suffer. If the SGE was to lower the maximum leverage ratio, it would reduce the maximum notional value of transaction a customer can conduct with a given amount of trading deposit, which may negatively affect our customers’ trading volume, thus negatively impacting our commissions and fees as they are earned based on our customers’ trading volume. A lower maximum leverage ratio may negatively impact our customers’ trading volume and our commissions and fees. Another example is the fee rate and leverage ratio, which is determined by the futures companies subject to the changes made by exchanges as well as market condition then. If the fee rate in future exchanges decreases, our income will directly decline accordingly. If the leverage ratio drops, our trading notional will downslope and our income will be negatively affected.

A substantial portion of our business currently relies on collaboration with multiple financial members of the SGE and futures companies. Our business will be adversely impacted if we are unable to maintain our relationship with them.

We have formed cooperative relationships with a number of financial members of the SGE and futures companies. We introduce customers to open accounts and trade at the trading platform or application of each of those financial members of the SGE and futures companies and, in turn, share the relevant commissions and fees income with financial members of the SGE and futures companies.

Our agreements with those financial members of the SGE and futures companies are non-exclusive and do not prohibit them from working with our competitors or from offering competing services. Any of those financial members of the SGE and futures companies could view that working with us is not in their best interest and hence decide to enter into exclusive or more favorable relationships with our competitors. In turn, those financial members of the SGE and futures companies may not perform as expected under our agreements, including potentially being unable to accommodate our projected growth in customer base and trading volume. We could in the future have disagreements or disputes with those companies, which could negatively impact or threaten our relationship.

We provide agent services to several financial members of the SGE who are subject to supervision of the SGE. And the SGE is subject to the oversight of the People's Bank of China. Any change of regulations to any or certain of our cooperative financial members could adversely impact our business. For instance, we were requested to suspend business cooperation with two of those financial members in accordance with the internal rule stipulated by the SGE that may result in high dependence on the fewer financial members that we could develop business relationships with and hence reduce our revenues generated from spot gold services.

The futures commodity business is subject to the oversight by the People's Bank of China, the Banking Regulatory Commission, the China Securities Regulatory Commission ("CSRC") and other regulatory authorities in China and other jurisdictions, and must comply with complex rules, regulations, licensing and examination requirements. We are an "introducing broker" and according to a rule stipulated in 2007, we cannot keep customers' transaction records and account materials in our platform. *The Measures for the Supervision and Administration of Futures Companies* promulgated by CSRC in 2019 required the futures companies to protect customer's account information strictly with discretion. As a result, we receive fees and commissions in accordance with the calculation sheet provided by those futures companies and if the futures companies conceal or wrongly calculate the fees or commissions, our income might be negatively affected. We may also have difficulties in settling data with accuracy, as we are not allowed to intercept customer information in accordance with *The Measures for the Supervision and Administration of Futures Companies*. Furthermore, *The Measures for the Supervision and Administration of Futures Companies* also clearly stipulated that the futures companies would assume the primary responsibility for handling customer complaints. As a result, those futures companies will likely to be more prudent in the negotiation and cooperation with the intermediaries like us, and may exert additional obligations to us in the future, which will drastically increase our risk and cost. This may have a negative impact on our business operations and revenue generation in the future.

Furthermore, according to an internal regulation notice, we, as an introducing broker, will subject our Apps to the certification of those futures companies. This might also negatively affect our business as we primarily acquire new customers through the apps we designed and developed independently.

Our futures commodities trading business is subject to extensive and evolving regulatory requirements in China, any non-compliance with or changes to these requirements may affect our business operations and prospects.

The PRC futures industry is highly regulated. Futures companies and other financial institutions that operate in this industry are subject to laws and regulations in various respects, including in relation to licensing, scope of permitted products and services, capital adequacy as well as trading and payment methods.

The regulatory authorities in China may conduct periodic inspections, examinations and inquiries in respect of our compliance with relevant regulatory requirements. Such laws and regulations may potentially impose additional costs on our business, increase the regulatory and compliance complexity of our operations, and reduce the demand for our services. There is no assurance that we will be able to comply fully with all the relevant laws and regulations. Any breach or non-compliance may result in sanctions, fines, penalties or other disciplinary actions.

Moreover, the relevant rules and regulations in the futures industry may change from time to time based on the development of the futures markets or otherwise. New legislation, rules and regulations and changes in the interpretation or enforcement of existing ones may impact our business strategies, operations and prospects. In addition, changes in the rules and regulations could result in limitations on the business lines that we may conduct or modifications to our business practices or additional costs, which may materially and adversely affect our financial condition and results of operations.

Our customer trading volume in our commodities services sector is influenced by the general trading activities in the online spot commodity trading market and futures commodities market, which may be impacted by competing investment products, economic and market conditions and other factors that are beyond our control.

Our revenue generated from our commodities services sector depends in part on our customer trading volume, which is influenced by the general trading activities in the online spot commodity trading market and futures commodities market. Online commodities trading faces competition from traditional investment products, including but not limited to, stock, wealth management products, as well as online finance products. These alternative investment products may divert investors from or reduce their activity levels in online commodities trading, which may adversely affect our trading volume, revenue and business.

In addition, the general trading activities in the commodities trading market may be impacted by movements and trends in the world's commodity markets. Customer trading activities are to some extent influenced by the changes in commodity prices in international and domestic commodity markets. Periods of increased fluctuations of commodity prices often coincide with a larger amount of trading volume by our customers. As a result, period-to-period comparison of our results of operations may not be meaningful and our future operating results may be subject to significant fluctuations. The general trading activities in our industry are also directly affected by factors such as economic and political conditions, macro trends in business and finance, investors' interest level in commodity trading and legislative and regulatory changes. Any one or more of these factors, or other factors, may reduce the trading activity level in the online commodities trading industry and adversely affect our business and results of operations and cash flows.

The profitability of our clients' investments is directly affected by elements beyond our control, such as economic and political conditions, broad trends in business and finance, changes in volume of securities transactions, changes in the markets in which such transactions occur and changes in how such transactions are processed. Furthermore, it is possible that some clients could solely rely on certain predictive statements made by other clients on our platform, ignoring our alert warnings that clients should make their own investment judgment and should not predict future performance based on historical records.

Any future change in the regulatory and legal regime for the securities brokerage industry may have a significant impact on our business.

We acquired Forthright Financial Holdings Company Limited, or Forthright, in 2017 and thus began to offer online trading services for individual investors to trade Hong Kong and U.S. stock. Firms in the securities brokerage industry have been subject to an increasingly regulated environment over recent years, and penalties and fines sought by regulatory authorities have also increased. This regulatory and enforcement environment has created uncertainties with respect to various types of products and services that historically had been offered by us and that were generally believed to be permissible and appropriate. Our model of operation and profitability may be directly affected by legislative changes in rules promulgated by government agencies and self-regulatory organizations in various jurisdictions that oversee our businesses, and changes in the interpretation or enforcement of existing laws and rules, such as the potential imposition of transaction taxes.

For example, Forthright does not hold any license or permit for doing securities brokerage business in China. Although we do not believe Forthright was engaging in securities brokerage business in China, there remain uncertainties as to the interpretation and implementation of relevant PRC laws and regulations. We face significant legal uncertainties as to whether the CSRC would require Forthright to get certain licenses or permits relating to its activities in China, or whether the CSRC would view our current or previous business operations in China as non-compliance with the relevant regulatory regime. We could be subject to disciplinary or other actions in the future due to being claimed or deemed non-compliance, which could have a material adverse effect on our business, financial condition and results of operations.

Our securities business could be materially and adversely affected if we fail to generate reliable data and price quotes or other trading-related information on a real-time basis from the stock exchanges, or if we cannot maintain our current business relationships with our historical data providers on commercially reasonable terms.

We acquired Forthright in 2017 and thus began to offer online trading services for Hong Kong and U.S. stock to individual investors around the world to receive commissions and interests through our platform. We also purchase market data and investment information from external data providers and then provide consolidated market data and industry analysis to our customers to help them make investment choices.

We rely on real-time stock, bond and mutual fund quotes and other trading-related information from the Shanghai and Shenzhen Stock Exchanges and any future securities exchanges in China. If those service providers were to fail to share reliable price quotes or other trading-related information on a real-time basis, it would be difficult for us to receive reliable real-time price quotes and other trading-related information from a different source, which could materially and adversely affect our business.

We cannot assure that the external data providers will be able to continue to provide data to meet our current needs in an efficient and cost-effective manner, or that they will be able to adequately expand their services to meet our needs in the future. An interruption in or the cessation of service by any external data provider as a result of system failures, capacity constraints, financial constraints or problems, unanticipated trading market closures or for any other reason and our inability to make alternative arrangements in a smooth and timely manner, if at all, could have a material adverse effect on our business, results of operations and financial condition. We cannot assure you that we will be able to enter into or maintain our business arrangements with our current primary and backup data providers on commercially reasonable terms or at all. In this case, it could take time for us to locate alternative providers of comprehensive historical data and information on commercially reasonable terms, which could cause disruptions to our operations and adversely affect our business. Even if we are able to find alternative data providers, they may fail to deliver to us reliable and comprehensive data and information in accordance with our specifications and requirements, which could materially and adversely affect our business.

If we are unable to retain existing clients or attract new clients, our business, financial conditions and results of operations may be materially and adversely affected.

Our success depends largely on our ability to retain existing clients, in particular those that have highly frequent transactions. Our clients may not continue to place trading orders or increase the level of their trading activities on our platform if we cannot match the prices offered by other market players or if we fail to deliver satisfactory services. Failure to deliver services in a timely manner at competitive prices with satisfactory experience will cause our clients to lose confidence in us and use our platform less frequently, or even stop using our platform altogether, which in turn will materially and adversely affect our business. Even if we are able to provide high-quality and satisfactory services on our platform in a timely manner and at favorable price terms, we cannot assure you that we will be able to retain existing clients, encourage repeat and increased trading transactions due to reasons out of our control, such as our clients' personal financial reasons or the deterioration of the capital markets condition.

Our customer base mainly comprises individual customers. Although we offer services designed to educate, support and retain our customers, our efforts to attract new customers or reduce the attrition rate of our existing customers may not be successful. If we were unable to maintain or increase our customer retention rates or generate new customers in a cost-effective manner, our business, financial condition and results of operations would likely be adversely affected. Historically, we incurred RMB424.9 million, RMB223.3 million and RMB339.8 million (US\$48.8 million) in advertising and promotion expenses, representing 17.3%, 20.4% and 20.1% of our revenues in the year of 2017, 2018 and 2019, respectively. Although we have spent significant financial resources on marketing expenses and plan to continue doing so, these efforts may not be cost-effective to attract new customers. We cannot assure you that we will be able to maintain or grow our customer base in a cost-effective way. If we are unable to maintain high-quality services, or maintain or reduce our service fee rate, or introduce new products and services, we may fail to attract new customers or lose our existing customers, which could adversely affect our growth and profitability.

The occurrence of cyber incidents, or a deficiency in our cybersecurity, could disrupt our services, cause damage to our brand and adversely affect our results of operations.

In the current environment, there are numerous and evolving risks to cybersecurity and privacy, including criminal hackers, hacktivists, state-sponsored intrusions, industrial espionage, employee malfeasance and human or technological error. High-profile security breaches at other companies and in government agencies have increased in recent years, and security industry experts and government officials have warned about the risks of hackers and cyberattacks targeting businesses such as ours. In a number of public networks, hackers have bypassed firewalls and misappropriated confidential information, including personally identifiable information, for various reasons, including political, economic and commercial gain.

Our computer networks support all phases of our operation, including marketing, customer development and the provision of customer services, are an essential part of our technology infrastructure and they may be vulnerable to cyber incidents. Our computer system, the networks we use, the networks and online trading platforms of the exchanges and other third parties with whom we interact are potentially vulnerable to physical or electronic computer break-ins, viruses and similar disruptive problems and security breaches. Our electronic data may also be vulnerable to attacks, unauthorized access and misappropriation, which may corrupt our electronic data. Concerns over the security of Internet transactions and the safeguarding of confidential personal information could also adversely affect our customers' intention to trade. A hacker who circumvents our cybersecurity measures could misappropriate proprietary information or cause interruptions, malfunctions or disruptions to our operations. We or our service providers may be required to invest significant resources to protect against the threat of security breaches or to alleviate problems caused by any breaches. We have not experienced a major cybersecurity breach to date. However, if a major cybersecurity breach were to occur, particularly if it results in a loss of confidence in our services, our reputation, business, financial condition and results of operations could be adversely affected.

We have implemented solutions, processes, and procedures to help mitigate our exposure to these types of cybersecurity risks, but these measures do not guarantee that we will not in the future experience a major cybersecurity breach. Despite our efforts to safeguard the information of our customers, information leakage due to system malfunction, employee error, misconduct or other factors may still occur. As a result, we may be required to devote significant incremental amounts of resources to protect against the threat or perceived threat of these cybersecurity risks or to alleviate problems caused by cyber incidents, if and when they occur. Our insurance may not be adequate to cover all losses in connection with any cybersecurity breach or other incident, and we cannot be certain that our present coverage, or any future coverage we may obtain, will remain available to us on commercially reasonable terms or at all.

Our proprietary technology is critical to our business and if we fail to keep our technology updated as the industry evolves, our growth, revenue and business prospects may be materially and adversely affected.

Our proprietary client software and client relationship management system, or CRM, are critical to our business operation. Our success in the past has largely been attributable to our sophisticated proprietary technology that has empowered the efficient operations of our platform. We have benefited from the fact that proprietary technology equivalent to that which we employ has not been widely available to our competitors. In order to remain competitive, our proprietary technology is under continuous development and upgrade.

Additionally, to keep pace with changing technologies and client demands, we must correctly interpret and address market trends and enhance the features and functionality of our technology in response to these trends, which may lead to significant research and development costs. We may be unable to accurately determine the needs of our users and clients or the trends in the online brokerage industry or to design and implement the appropriate features and functionality of our technology in a timely and cost-effective manner, which could result in decreased demand for our services and a corresponding decrease in our revenue. Also, any adoption or development of similar or more advanced technologies by our competitors may require that we devote substantial resources to the development of more advanced technology to remain competitive. The markets in which we compete are characterized by rapidly changing technology, evolving industry standards and changing trading systems, practices and techniques. Although we have been at the forefront of many of these developments in the past, we may not be able to keep up with these rapid changes, develop new technology, realize a return on amounts invested in developing new technologies or remain competitive in the future.

New lines of business or new services may subject us to additional risks.

From time to time, we may implement new lines of business or offer new services within existing lines of business. For instance, we commenced gold trading service on the SGE in November 2015. In August 2016, we acquired 100% equity interest in Gold Master (HK) Company Limited, or the Gold Master, which offers online spot commodity trading intermediate services to individual customers in PRC. We also established Financial Innovation Labs in Shanghai and Boston in November 2016 to focus on areas such as big data, artificial intelligence and trading strategies. Further, in 2017, we expanded our business to futures commodities trading services and securities services. In February 2018, we started securities advisory business to provide our individual customers with market insights and investment decision-making processes. In December 2018, we started to provide global asset allocation services after we acquired OTS Capital Management, a Type 4 and Type 9 license holder in Hong Kong. We may further expand into other business areas in the future.

There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new services may not be achieved and profitability targets may not prove feasible. External factors, such as compliance with regulations, competition and shifting market preferences, may also impact the successful implementation of a new line of business or a new service. Our personnel and technology systems may fail to adapt to the changes in such new areas or we may fail to effectively integrate new services into our existing operation and we may lack experience in managing new lines of business or new services. In addition, we may be unable to proceed with our operations as planned or compete effectively due to different competitive landscapes in these new areas. Even if we expand our businesses into new jurisdictions or areas, the expansion may not yield intended profitable results. Furthermore, any new line of business and/or new service could have a significant impact on the effectiveness of our internal control system. Failure to successfully manage these risks in the development and implementation of new lines of business or new services could have a material adverse effect on our business, results of operations and financial condition.

If our internal control over financial reporting or our disclosure controls and procedures are not effective, we may not be able to accurately report our financial results, prevent fraud or file our periodic reports in a timely manner.

Based on the criteria established in Internal Control — Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission, our management determined that our internal control over financial reporting was ineffective due to the presence of a unremediated material weakness. The material weakness identified relates to our lack of sufficient accounting personnel with appropriate knowledge of U.S. GAAP and SEC reporting requirements and failure to establish and clearly communicate acceptable policies regarding U.S. GAAP financial reporting. A material weakness (as defined in Rule 12b-2 under the Exchange Act) is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual financial statements will not be prevented on a timely basis. This control deficiency creates a reasonable possibility that a material misstatement to the consolidated financial statements will not be prevented or detected on a timely basis, and therefore we concluded that the deficiency represents a material weakness in our internal control over financial reporting and our internal control over financial reporting was not effective as of December 31, 2019.

When we are no longer an emerging growth company under the federal securities laws, our independent registered public accounting firm will be required to issue an attestation report on the effectiveness of our internal control over financial reporting. Even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may conclude that there are material weaknesses or significant deficiencies with respect to our controls or the level at which our controls are documented, designed, operated or reviewed. Material weaknesses were once identified by our auditor in the past and may be identified during the audit process or at other times. If we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404.

The reporting obligations as a public company place a strain on our management, operational and financial resources and systems for the near future. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions.

We may pursue acquisitions or joint ventures that could present unforeseen integration obstacles, incur unpredicted costs or may not enhance our business as we expected.

We have made a few selective acquisitions to expand our business into new areas. We may in the future continue to pursue acquisitions and joint ventures as part of our growth strategy. In August 2016, we acquired 100% equity interest in Gold Master, which offers online spot commodity trading intermediate services to individual customers in the PRC on the SGE. Gold Master's revenues for 2018 did not meet management's expectations, therefore we performed an impairment test and recognized RMB 505 million impairment loss for goodwill, RMB 78 million impairment loss on customer list and RMB 56 million impairment loss on trademark. In July 2017, we established a joint venture with SINA Corporation (NASDAQ: SINA), a leading online media company serving China and the global Chinese communities, to provide financial software, information and services to individual investors. In December 2018, we acquired OTS Capital Management, a type-4 and type-9 license holder in Hong Kong under the Securities and Futures Commission ("SFC") to provide global asset allocation service. We also entered into securities advisory and asset management business through acquisitions.

Any future acquisition or joint venture may result in exposure to potential liabilities of the acquired companies, significant transaction costs and it may present new risks associated with entering additional markets or offering new products as well as integrating the acquired companies or newly established joint ventures. Potential liabilities may arise from deficiencies in due diligence findings and deficient track record information. In addition, we may not have sufficient management, financial and other resources to integrate companies we acquire or to successfully operate joint ventures and we may be unable to profitably operate our expanded company. Additionally, any new businesses that we may acquire or joint ventures we may form, once integrated with our existing operations, may not produce expected or intended results.

We may be subject to customer claims and litigation risk that could adversely affect our reputation, business, financial condition and results of operations.

We are subject to lawsuits and other claims in the ordinary course of our business. Our business operations entail substantial litigation and regulatory risks, including the risk of lawsuits and other legal actions relating to information disclosure, client onboarding procedures, sales practices, product design, fraud and misconduct, control procedures deficiencies, as well as the protection of the personal and confidential information of our clients. We may be subject to arbitration claims and lawsuits in the ordinary course of our business. We may face arbitration claims and lawsuits brought by our users and clients who have used our online brokerage or other financial services and found them unsatisfactory. We may also encounter complaints alleging misrepresentation with regard to our platform and/or services. We may be subject to inquiries, inspections, investigations and proceedings by regulatory and other governmental agencies. Actions brought against us may result in settlements, injunctions, fines, penalties, suspension or revocation of license, reprimands or other results adverse to us that could harm our reputation. Even if we are successful in defending ourselves against these actions, the costs of such defense may be significant to us. In market downturns, the number of legal claims and the amount of damages sought in legal proceedings may increase.

The laws and regulations governing the financial services industry in China are still evolving. Substantial uncertainties exist regarding the regulatory system and the interpretation and implementation of current and any future PRC laws and regulations applicable to the financial services industry and securities and futures businesses. Depending on the type of products and services offered, the business operation may be subject to the supervision and scrutiny by different authorities. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain new ones. Nor could we assure you that all our employees have obtained the qualifications or licenses required for their work, especially for those sales and customer related employees whose qualification requirements are less clear under the current legal regime. If the PRC government considers that we were operating without the proper approvals, licenses or permits or promulgates new laws and regulations that require additional approvals or licenses or imposes additional restrictions on the operation of any part of our business, it has the power, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material adverse effect on our business and results of operations and may bring potential litigation and arbitrations.

We could also be negatively impacted if an operational breakdown or failure in the processing of transactions occurred, whether as a result of human errors, purposeful sabotage or fraudulent manipulation of our operations or systems. Our employees could misappropriate customer information, conduct improper activities on behalf of our customers, make false or misleading statements, promise investment returns to attract customers to trade, misrecord or otherwise try to hide improper activities from us. It is not always possible to identify and deter misconduct or errors by employees, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses. If any of our employees fail to follow our rules and procedures when interacting with clients, we could be liable for damages and subject to regulatory actions and penalties. Any of these occurrences could result in our diminished ability to operate our business, inability to attract users, reputational damage, regulatory intervention and financial harm, which could negatively impact our business, financial condition and results of operations. Moreover, employees' misconduct could give rise to customer claims against us, including claims for negligence, fraud, failure to supervise, breach of fiduciary duty, transactions and intentional misconduct. These claims, regardless of their merits, could subject us to substantial losses and seriously harm our reputation, and may escalate into litigation as well.

We face intense competition in the industry of providing investment and trading services to individual investors in China, and if we do not compete effectively, our results of operations and our business prospects may be adversely affected.

We provide investment and trading services to individual investors in China and we encounter intense competition in all of our business lines. There are a variety of financial institutions in the PRC that provide investment and trading services to individual investors. We compete primarily with PRC commercial banks, securities firms, trust companies, funds and emerging internet-based financial companies. Our competitors may compete with us in the following ways:

- provide services that are similar to ours, or that are more attractive to customers than ours;
- provide products and services we do not offer;
- adapt at a faster rate to market conditions, new technologies and customer demands;
- offer better, faster and more reliable technology; and
- market, promote and provide their services more effectively.

We cannot assure you that we will be able to compete effectively or efficiently with current or future competitors. They may be acquired by, receive investment from or enter into strategic relationships with, established and well-financed companies or investors, which would help enhance their competitiveness. Furthermore, the current competitors and new entrants in the online brokerage industry may also seek to develop new service offerings, technologies or capabilities that could render some of the services that we offer obsolete or less competitive, and some of them may adopt more aggressive pricing policies or devote greater resources to marketing and promotional campaigns than we do. The occurrence of any of these circumstances may hinder our growth and reduce our market share, and thus our business, results of operations, financial condition and prospects would be materially and adversely affected.

Our reputation is critically important to our business. If our reputation is harmed, or the reputation of the industry as a whole is damaged, our business, financial condition, results of operations or prospects may be materially and adversely affected.

Our ability to attract and retain customers may be adversely affected if our reputation is damaged. If we fail, or appear to fail, to deal with issues that may give rise to reputational risk, our business and prospects may be harmed. These issues include, but are not limited to, mishandling customer complaints, potential conflicts of interest, privacy breaches, customer data leak, improper sales practices, as well as failure to identify legal, credit, liquidity, and market risks inherent in our business. Failure to appropriately address these issues could reduce customer confidence in us or increase the customer attrition rate, which may adversely affect our reputation and business.

In addition, our ability to attract and retain customers may be adversely affected if the reputation of the industry as a whole is damaged. In recent years, certain illegal trading platforms have caused reputational damage to the entire online spot commodity trading industry. There have been news reports on alleged misappropriation of customer funds and other fraudulent activities by certain exchanges and exchange members. The perception of insufficient regulation and unfavorable reputation within the industry could materially and adversely affect our ability to attract and retain customers.

Any fraudulent or allegedly fraudulent activities in the online spot commodity trading industry, which is beyond our control, may damage the reputation of the entire industry and may adversely affect our business operations and reputation.

We may not be able to protect our intellectual property rights or may be subject to intellectual property claims from others.

We rely on a combination of trademark, copyright, trade secret and fair business practice laws in the PRC to protect our proprietary technology, intellectual property rights and brand. Although we have entered into confidentiality and invention assignment agreements with certain of our employees and/or relevant third parties and also rigorously control access to proprietary technology, it is possible that third parties may copy or otherwise obtain and use our proprietary technology without authorization of the company or otherwise infringe on our rights. We may also face claims of infringement that could interfere with our ability to use technology that is material to our business operations.

In the future, we may have to rely on litigation to enforce our intellectual property rights, protect our trade secrets, determine the validity and scope of the proprietary rights of others or defend against claims of infringement or invalidity. Any such litigation, whether successful or unsuccessful, could result in substantial costs and the diversion of resources and the attention of management, any of which could adversely affect our business.

We may be liable to our clients for the disclosure of personal or confidential information, including personally identifiable information, system failures, errors or unsatisfactory performance of services which may adversely affect our business, reputation and results of operations.

We often have access to, and are required to collect and store, sensitive or confidential client information, including personally identifiable information. If any person, including any of our employees and subcontractors, penetrates our network security or misappropriates sensitive or confidential client information, including personally identifiable information, we could be subject to significant liability from our clients for breaching contractual confidentiality provisions or privacy laws.

We are subject to a variety of laws and other obligations relating to the security and privacy of data, including restrictions on the collection, use and storage of personal information and requirements to take steps to prevent personal data from being divulged, stolen, or tampered with. *The PRC Constitution, The PRC Criminal Law, The General Principles of the PRC Civil Law* that protect individual privacy in general. *The Cybersecurity Law of the PRC*, which came into effect in June 2017, requires certain authorization or consent from Internet users prior to collection, use or disclosure of their personal data and also protection of the security of the personal data of such users, but there are still great uncertainties as to the interpretation and application of the *Cybersecurity Law*. The Office of the Central Cyberspace Affairs Commission, the Ministry of Industry and Information Technology, the Ministry of Public Security, and the State Administration for Market Regulation jointly promulgated an announcement on January 23, 2019 to carry out special campaigns against illegal collection and usage of personal information by mobile internet application programs operators, including collecting personal information irrelevant to their services, or forcing users to give authorization in disguised manner. Further, the Office of the Central Cyberspace Affairs Commission issued *The Provisions on the Cyber Protection of Children's Personal Information*, effective on October 1, 2019, which requires, among others, that internet operators who collect, store, use, transfer and disclose personal information of children under the age of 14 shall establish special rules and user agreements for the protection of children's personal information, inform the children's guardians in a noticeable and clear manner, and shall obtain the consent of the children's guardians. Although our current privacy policy clearly requires guardian's consent for children under the age of 14, we don't have technical means in place to ensure the authenticity of the consents obtained. We may be subject to laws and regulations relating to the security and privacy of data, including the collection, use and storage of personal information, of jurisdictions other than the PRC. Any failure, or perceived failure to maintain the security of our user data or to comply with applicable PRC or foreign privacy, data security and personal information protection laws and obligations may result in civil or regulatory liability, including governmental or data protection authority enforcement actions and investigations, fines, penalties, enforcement orders requiring us to cease operating in a certain way, litigation, or adverse publicity, and may require us to expend significant resources in responding to and defending allegations and claims.

Despite measures we take to protect the client information or personally identifiable information of our clients, unauthorized parties, including our employees and subcontractors, may attempt to breach our clients' confidence. Unauthorized disclosure of sensitive or confidential client information, including personally identifiable information, whether through employee misconduct, breach of our computer systems, systems failure or otherwise, may subject us to liabilities, damage our reputation and cause us to lose clients.

In addition, while we have taken steps to protect the client information that we have access to, our security measures may be breached. If a cyberattack or other security incident were to result in unauthorized access to or modification of our customers' data or our own data or our IT systems or in disruption of the services we provide to our customers, or if our products or services are perceived as having security vulnerabilities, we could suffer significant damage to our business and reputation.

Our management team lacks experience in managing a U.S. public company and complying with laws applicable to such company, the failure of which may adversely affect our business, financial conditions and results of operations.

Our current management team lacks experience in managing a U.S. publicly traded company, interacting with public company investors and complying with the increasingly complex laws pertaining to U.S. public companies. We became a publicly traded company in April 2016, subjecting us to significant regulatory oversight and reporting obligations under the federal securities laws and the scrutiny of securities analysts and investors. Our management had limited experience in complying with such laws, regulations and obligations. These new obligations and constituents will require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely affect our business, financial conditions and results of operations.

Our risk management policies and procedures may not be fully effective in identifying or mitigating risk exposure in all market environments or against all types of risk.

We have devoted significant resources to developing our risk management policies and procedures and will continue to do so. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk. Many of our risk management policies are based upon observed historical market behavior or statistics based on historical models.

During periods of market volatility or due to unforeseen events, the historically derived correlations upon which these methods are based may not be valid. As a result, these methods may not predict future exposures accurately, which could be significantly greater than what our models indicate. This could cause us to incur investment losses or cause our hedging and other risk management strategies to be ineffective. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that are publicly available or otherwise accessible to us, which may not always be accurate, complete, up-to-date or properly evaluated.

Although we have established an internal compliance system to supervise service quality and regulation compliance, these risks may be difficult to detect in advance and deter, and could harm our business, results of operations or financial performance.

In addition, although we perform due diligence on potential clients, we cannot assure you that we will be able to identify all the possible issues based on the information available to us. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to properly record and verify a large number of transactions and events, and these policies and procedures may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk. For example, according to article 21 of *The Cybersecurity Law of the People's Republic of China*, the State implements a cybersecurity multi-level protection system (the "MLPS") and the network operators shall perform security protection duties according to the requirements of the MLPS to ensure the network is free from interference, damage, or unauthorized access, and to prevent network data leaks, theft, or falsification. Currently, only two APPs of our Company have fulfilled these requirements and we might be subject to administrative penalties for the non-compliance. However, we do not believe we face high risks of severe penalties in the current regulatory environment.

Our lack of an Internet audio-visual program transmission license may expose us to administrative sanctions, which would materially and adversely affect our business, results of operations and financial condition.

Our lack of an Internet audio-visual program transmission license may expose us to administrative sanctions, which would materially and adversely affect our business, results of operations and financial condition. Pursuant to the *Administrative Provisions on Internet Audio-Visual Program Service*, or the Audio-Visual Program Provisions, which was issued by the State Administration of Radio, Film and Television, or SARFT, and the Ministry of Industry and Information Technology, or MIIT, coming into effect on January 31, 2008 and amended on August 28, 2015, online transmission of audio and video programs requires an Internet audio-visual program transmission license and online audio-visual service providers must be either wholly state-owned or state-controlled. In a press conference jointly held by SARFT and MIIT to answer questions with respect to the Audio-Visual Program Provisions in February 2008, SARFT and MIIT clarified that online audio-visual service providers that had already been operating lawfully prior to the issuance of the Audio-visual Program Provisions may re-register and continue to operate without becoming state-owned or controlled, provided that such providers have not engaged in any unlawful activities. This exemption will not be granted to online audio/video service providers established after the Audio-Visual Program Provisions were issued.

While two of our PRC Subsidiaries, Sina Shi Jin (Shanghai) Information Technology Co., Ltd. and Shanghai Fu Dong Culture Media Co., Ltd. have obtained the radio and television program production license from the local counterpart of the SARFT which allows for engaging in the production and distribution business of radio and television programs in the PRC, we, however, currently do not possess an Internet audio-visual program transmission license. As a result, the relevant regulatory authorities may find our operations to be in violation of the applicable laws and regulations. We may receive a warning and be ordered to pay a fine of not more than RMB30,000. In the case of severe contravention, we may be ordered to cease transmission of audio and video programs, be subject to a penalty equal to one to two times of our total investment in the affected business and the devices we used for such operation may be confiscated. Furthermore, according to the Audio-Visual Program Provisions, the telecommunications administrative authorities may, based on written opinions of SARFT, and in accordance with the relevant laws and regulations on supervision of telecommunications and the Internet, close our platform and order the relevant network operation entity that provides us signal access services to stop such provision of services. Such penalties would materially and adversely affect our business, results of operations and financial condition.

Our lack of a license for provision of the value-added telecommunication services, or the ICP license, may expose us to administrative sanctions, which would materially and adversely affect our business, results of operations and financial condition.

Our lack of an operating license for value-added telecommunication business may expose us to administrative sanctions, which would materially and adversely affect our business, results of operations and financial condition. Pursuant to *The Telecommunication Regulation of the People's Republic of China*, or the Telecom Regulations, promulgated by the State Council on September 25, 2000 and later amended on July 29, 2014 and February 6, 2016, “value-added telecommunication services” is defined as telecommunications and information services provided through public networks. According to the Telecom Regulations as well as the Measures on the Administration of Telecommunications Business Operating Licenses, or the Telecom License Measures which were released by MIIT, became effective on April 10, 2009 and later amended on July 3, 2017 with the effectiveness commencing on September 1, 2017, operators of value-added telecommunications services shall obtain operating licenses prior to commencing operations from the MIIT, or its provincial-level counterparts. The Catalogue of Telecommunications Business (2015), or the Catalogue, which was released by MIIT in 2015 and became effective on March 1, 2016, further identifies information services as value-added telecommunications services. Provision of information services including instant message belongs to the second type of value-added telecommunications services.

We currently do not possess the aforementioned ICP license for us to provide the internet information services of instant messaging, which may result in the determination by relevant regulatory authorities that our provision of such service is in violation of the applicable laws and regulations. Pursuant to the Telecom Regulations and the Telecom License Measures, we may be ordered to rectify such violation and the illegal income will be confiscated; further, a penalty equal to three to five times the illegal income could be imposed, and in the event the illegal income is lower than RMB50,000, such penalty could be adjusted to the amount between RMB100,000 to RMB1,000,000. Such penalties would materially and adversely affect our business, results of operations and financial condition. However, we do not believe we face high risks of severe penalties in current regulatory environment.

We may be unable to effectively manage our rapid growth.

The rapid growth of our business during our limited operation history has placed significant demands on our management and other resources. As we grow, we may also need to expand and upgrade the reliability and scalability of our proprietary technology, network infrastructure and other aspects of our IT system. We may need to hire additional sales and marketing representatives, customer service, risk management as well as other personnel to serve the enlarged customer base. Implementation of new business arrangements, expansion of technology infrastructure and an increase in employee numbers may further increase our operational complexity and impose higher standards on every aspect of our operation. Our management team may fail to effectively cope with the increased operational complexity, and we may fail to integrate new resources into our existing operation system. Therefore, we may not be able to maintain our current growth rate or manage our growth effectively.

We face risks related to natural disasters, health epidemics, terrorist attacks and other outbreaks, which could significantly disrupt our operations.

We face risks related to the recent coronavirus (COVID-19) outbreaks.

The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic or other widespread health emergency, terrorist attacks or natural disasters, could create economic and financial disruptions, lead to operational difficulties that could impair our ability to manage our businesses, and expose our business activities to significant losses. Our operations could also be severely disrupted if the exchanges we operate on were affected by natural disasters, health epidemics or man-caused disasters.

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in Wuhan, PRC. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The COVID-19 outbreak has brought uncertainties and interruptions to China's macroeconomics and the global economy and may have adverse effects on our operations. The Chinese government as well as an increasing number of countries in the world have taken various measures to constrain the outbreak. This COVID-19 outbreak has caused, and may continue to cause, companies in China, including us, to implement temporary adjustment of work schemes allowing employees to work from home. We have taken specific precautionary measures intended to minimize the risks of COVID-19 to our employees, customers and business partners, including temporarily requiring our employees to work remotely or canceling or postponing sponsored offline events and activities, which could compromise our efficiency and productivity during such periods, require us to incur additional costs, slow down our branding and marketing efforts, and result in short-term fluctuations in our results of operations. With offline activities in China largely limited since early 2020 and many communities subject to temporary lockdown, travel restriction or other form of quarantine, the interruptions of COVID-19 to our platform might be partially mitigated by increased popularity of online platform. The drastic market fluctuations influenced by the COVID-19 pandemic in fact brought a surge in our transaction volume in the first quarter of 2020. However, it might also cause instabilities of our customer's investments, which will in turn increase our exposure to potential law suits and customer claims, hence might negatively affect our business in the future. In addition, the disposable income of certain of our customers may decrease or have decreased as a result of the impact of the COVID-19 outbreak, which may also adversely affect our operations. While the foregoing restrictions and measures designed to contain the spread of COVID-19 are expected to be temporary, the duration of the disruption and the related economic impact cannot be reasonably estimated at this time. Our results of operations may be adversely affected to the extent that COVID-19 continues to affect the Chinese economy in general. Additionally, as COVID-19 continues to evolve into a worldwide health crisis that could adversely affect the economies and financial markets of countries other than China, it may potentially result in an economic downturn that could affect demand for our customers, business partners and services and therefore materially adversely affect our business, financial condition and results of operations. While there have been intensifying efforts to contain the spread of the COVID-19 by the governments of the countries and territories affected, the extent to which the COVID-19 impacts our results is highly uncertain and depends on future developments, including new information that emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others.

Our insurance coverage may be inadequate to cover risks related to our business and operation.

While we maintain certain insurance, such as employee commercial insurance, traffic compulsory insurance, vehicle commercial insurance, there is no assurance that our insurance coverage will be adequate to cover potential losses. We have purchased D&O insurance for our directors and officers but not sure if it will be adequate to cover potential liability arising under future litigations. Under PRC laws and regulations, we are not required to, and we do not, maintain any insurance in relation to our business operations, such as business interruption insurance, or liability insurance against liabilities arising from customer complaints and litigation or other aspects of our business. Our current insurance policies may not protect us against such losses and liabilities.

Although we believe that our insurance coverage is in line with industry practice in the PRC, if any of the incidents mentioned above occur and we have insufficient insurance to cover the liabilities associated with such incidents, it could have a material adverse effect on our financial condition, results of operations and business prospects.

Risks Related to Our Corporate Structure

We rely on contractual arrangements with our VIE to use, or otherwise benefit from, the foreign restricted licenses and permits, such as the ICP license. Any failure by our VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.

We are a Cayman Islands company and our PRC subsidiaries are considered foreign invested enterprises. To comply with PRC laws and regulations, we conduct certain operations in China through a series of contractual arrangements entered into among Shanghai Xie Luo Information Technology Co., Ltd., or Xie Luo, and four onshore VIE Entities and their respective shareholders in PRC, specifically as follows: (1) Xie Luo, Shanghai Ran Yu Information Technology Co., Ltd., or Ran Yu, and the shareholders of Ran Yu, entered into on January 3, 2017, (2) Xie Luo, Shanghai Bei Xun Industry Co., Ltd., or Bei Xun, and the shareholders of Bei Xun, entered into on July 1, 2017, (3) Xie Luo, Shanghai Hong Feng Assets Management Co., Ltd., or Hong Feng, and the shareholders of Hong Feng, entered into on October 17, 2017, (4) Xie Luo, Dalian Shun Fu Hui Business Information Consulting Co., Ltd., and shareholders of Shun Fu Hui entered into on July 31, 2018, (5) Shanghai Chun Da Asset Management Co., Ltd., or Chun Da, and the shareholders of Chun Da, entered into on November 7, 2019 (Ran Yu, Bei Xun, Hong Feng, Shun Fu Hui, and Chun Da as our consolidated variable interest entities, together referred to as the “VIE Entities”, each a “VIE Entity”). As a result of these contractual arrangements, we exert control over the VIE Entities and will consolidate their operating results in our financial statements under U.S. GAAP for the fiscal year ending December 31, 2019.

We rely on contractual arrangements with our VIE to use, or otherwise benefit from, certain foreign restricted licenses and permits that we may need in the future as our business continues to expand, such as the internet content provider license, or the ICP license held by our VIE. The contractual arrangements contain terms that specifically obligate the VIE’s shareholders to ensure the valid existence of the VIE and restrict the disposal of material assets of the VIE. However, these contractual arrangements may not be as effective as direct ownership in providing us with control over our VIE. For example, our VIE and its shareholders could breach their contractual arrangements with us by, among other things, failing to conduct their operations in an acceptable manner or taking other actions that are detrimental to our interests. In the event the VIE’s shareholders breach the terms of these contractual arrangements and voluntarily liquidate our VIE, or our VIE declares bankruptcy and all or part of its assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to conduct some or all of our business operations or otherwise benefit from the assets held by the VIE, which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, if our VIE undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of the assets of the VIE, thereby hindering our ability to operate our business as well as constrain our growth.

Substantial uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

The Foreign Investment Law was enacted by the second session of the thirteenth National People’s Congress of the PRC on March 15, 2019. On December 12, 2019, The Implementation Regulations of Foreign Investment Law was promulgated by the State Council, which simultaneously came into force with The Foreign Investment Law on January 1, 2020. The Foreign Investment Law, together with The Implementation Regulations of Foreign Investment Law, replaced, in their entirety, the trio of existing laws regulating foreign investment in China, namely, The Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. This law is the legal foundation for foreign investment in the PRC. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The Implementation Regulations of Foreign Investment Law provide detailed rules for the principles of investment protection, promotion and management set forth in the Foreign Investment Law.

However, uncertainties still exist in relation to interpretation and implementation of The Foreign Investment Law, especially in regard to, including, among other things, the nature of “variable interest entity” structure, the promulgation schedule of both the “negative list”, or The Negative List, under the Foreign Investment Law and specific rules regulating the organization form of foreign-invested enterprises within the five-year transition period. As a result, The Foreign Investment Law may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

The promulgated Foreign Investment Law does not explicitly define VIE structure as a form of foreign investment or indicate what actions shall be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by Chinese parties. Moreover, it is uncertain whether the apartment rental industry, in which the VIE and its subsidiaries operate, will be subject to the foreign investment restrictions or prohibitions set forth in the “catalog of special administrative measures” to be issued. If companies with an existing VIE structure like us are required to complete the MOC market entry clearance, we face uncertainties as to whether such clearance can be timely obtained, or at all. If we are not able to obtain such clearance when required, our VIE structure may be regarded as invalid and illegal. As a result, we would not be able to

- a) continue our business in China through our contractual arrangements with the VIE and shareholders of the VIE;
- b) exert control over the VIE;
- c) receive the economic benefits of the VIE under such contractual arrangements; or
- d) consolidate the financial results of the VIE.

Were this to occur, our results of operations and financial condition would be materially and adversely affected and the market price of our ADSs may decline.

The Foreign Investment Law mainly stipulates three forms of foreign investment, which includes: (a) a foreign investor, individually or collectively with other investors, establishes a foreign-invested enterprise within PRC, (b) a foreign investor acquires stock shares, equity shares, interests in assets, or other like rights and interests of an enterprise within PRC, and (c) a foreign investor, individually or collectively with other investors, invests in a new project within PRC. Despite the fact that the Foreign Investment Law does not explicitly stipulate the contractual arrangements or VIE structure as a form of foreign investment, it contains a general provision that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council.” Therefore, there are possibilities that future laws, administrative regulations or provisions of the State Council of the PRC may stipulate contractual arrangements as a way of foreign investment, and then whether our contractual arrangements will be recognized as a foreign investment, whether our contractual arrangements will be deemed to be in violation of the access requirements of foreign investment and how our contractual arrangements will be interpreted and handled remain uncertain.

There is no guarantee that our contractual arrangements and the business of our consolidated VIE will not be materially and adversely affected in the future. If the contractual arrangements and business of our company, our PRC subsidiary or our variable interest entity are found to be in violation of any existing or future PRC laws or regulations, or we fail to obtain or maintain any of the required permits, approvals or clearance, the relevant governmental authorities would have broad discretion in dealing with such violation, including levying fines, confiscating our income or the income of our PRC subsidiary or the VIE, revoking the business licenses or operating licenses of our PRC subsidiary or the VIE, shutting down our servers or blocking our rental apartments listed on the internet, discontinuing or placing restrictions or onerous conditions on our operations, requiring us to undergo a costly and disruptive restructuring, restricting or prohibiting our use of proceeds from our initial public offering to finance our business and operations in China, and taking other regulatory or enforcement actions that could be harmful to our business. In the extreme cases scenario, we may be required to unwind the contractual arrangements or dispose of our VIE which could have a material and adverse effect on our business, financial condition and result of operations. Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of the VIE, and/or our failure to receive economic benefits from the VIE, we may not be able to consolidate their results into our consolidated financial statements in accordance with U.S. GAAP.

The Foreign Investment Law, may also adversely impact our corporate governance practice and increase our compliance costs. For instance, *the Foreign Investment Law* imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from an investment information report required at each investment, and investment amendment reports, which shall be submitted upon alteration of investment specifics, it is mandatory for entities established by foreign investors to submit an annual report, and large foreign investors meeting certain criteria are required to report on a quarterly basis. Any company found to be non-compliant with these reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities. In addition, *The Foreign Investment Law* allows foreign invested enterprises established according to the existing laws regulating foreign investment to maintain their current structure and corporate governance during the five-year transition period. This infers that we may be required to adjust the structure and corporate governance of certain of our PRC subsidiaries in the transition period. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance requirements may lead to regulatory non-compliance and hence materially and adversely affect our current corporate structure, corporate governance and business operations.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiary to liability or penalties, limit our ability to inject capital into our PRC subsidiary, limit our PRC subsidiary's ability to increase its registered capital or distribute profits to us, or may otherwise adversely affect us.

On July 4, 2014, SAFE issued *The Circular on Issues Concerning Foreign Exchange Control over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles*, or SAFE Circular 37, which became effective as of July 4, 2014 and has replaced *The Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents' Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles* ("SAFE Circular 75"). According to SAFE Circular 37, prior registration with the local SAFE branch is required for PRC residents, including PRC individuals and PRC corporate entities as well as foreign individuals that are deemed as PRC residents for foreign exchange administration purpose, in connection with their direct or indirect contribution of domestic assets or interests to offshore companies, known as SPVs. SAFE Circular 37 further requires amendment to the SAFE registrations in the event of any changes with respect to the basic information of the offshore special purpose vehicle, such as change of a PRC individual shareholder, name and operation term, or any significant changes with respect to the offshore special purpose vehicle, such as increase or decrease of capital contribution, share transfer or exchange, or mergers or divisions. SAFE Circular 37 is applicable to our shareholders who are PRC residents and may be applicable to any offshore acquisitions that we make in the future. In February 2015, SAFE promulgated a *Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment*, or SAFE Notice 13, effective June 2015. Under SAFE Notice 13, applications for foreign exchange registration of inbound foreign direct investments and outbound overseas direct investments, including those required under SAFE Circular 37, will be filed with qualified banks instead of SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of SAFE.

In addition to SAFE Circular 37 and SAFE Notice 13, our ability to conduct foreign exchange activities in China may be subject to the interpretation and enforcement of *The Implementation Rules of the Administrative Measures for Individual Foreign Exchange* promulgated by SAFE in January 2007 (as amended and supplemented, the "Individual Foreign Exchange Rules"). Under the Individual Foreign Exchange Rules, any PRC individual seeking to make a direct investment overseas or engage in the issuance or trading of negotiable securities or derivatives overseas must make the appropriate registrations in accordance with SAFE provisions, the failure of which may subject such PRC individual to warnings, fines or other liabilities.

All of our shareholders who are subject to the SAFE Circular 37 and Individual Foreign Exchange Rules have completed the initial registrations with the qualified banks as required by the regulations. However, we may not be informed of the identities of all the PRC residents holding direct or indirect interest in our company, and we have no control over our beneficial owners. Thus, we cannot provide any assurance that our current or future PRC resident beneficial owners will comply with our request to make or obtain any applicable registrations or continuously comply with all registration procedures set forth in these SAFE regulations. Such failure or inability of our PRC resident beneficial owners to comply with these SAFE regulations may subject us or our PRC resident beneficial owners to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiary's ability to distribute dividends to, or obtain foreign-exchange-dominated loans from, our company, or prevent us from being able to make distributions or pay dividends, as a result of which our business operations and our ability to distribute profits to you could be materially adversely affected.

Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from our PRC subsidiary to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiary in China may be used to pay dividends to our company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiary and consolidated variable interest entity to pay off their respective debt in a currency other than Renminbi owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi.

In light of the flood of capital outflows of China in 2016 due to the weakening Renminbi, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement including overseas direct investment. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. If any of our shareholders regulated by such policies fails to satisfy the applicable overseas direct investment filing or approval requirement timely or at all, it may be subject to penalties from the relevant PRC authorities. The PRC government may at its discretion further restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of the ADSs.

We rely on contractual arrangements with the VIE Entities and their respective shareholders for a portion of our business operations, which may not be as effective as direct ownership in providing operational control.

We expect to rely on contractual arrangements with the VIE Entities and their respective shareholders in some operations. These contractual arrangements may not be as effective as direct ownership in providing us with control over our consolidated variable interest entity. For example, the VIE Entities and their respective shareholders could breach their contractual arrangements with us by, among other things, failing to conduct their operations, including maintaining our website and using the domain names and trademarks, in an acceptable manner or taking other actions that are detrimental to our interests.

If we had direct ownership of the VIE Entities, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of the VIE Entities, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the current contractual arrangements, we rely on the performance by the VIE Entities and their respective shareholders of their obligations under the contracts to exercise control over the VIE Entities. The shareholders of the VIE Entities may not act in the best interests of our company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with the VIE Entities. Although we have the right to replace any shareholder of the VIE Entities under the contractual arrangement, if any shareholder of the VIE Entities is uncooperative or any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC laws and arbitration, litigation and other legal proceedings and therefore will be subject to uncertainties in the PRC legal system. See “—Any failure by the VIE Entities, or their respective shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business” below. Therefore, our contractual arrangements with the VIE Entities, our consolidated variable interest entity, may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

Any failure by the VIE Entities or their respective shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.

We refer to the shareholders of each of our VIE Entities as nominee shareholders because although they remain the holders of equity interests on record in each of our VIE Entities, pursuant to the terms of the relevant power of attorney, each such shareholder has irrevocably authorized the relevant WFOE to exercise his, her or its rights as a shareholder of the relevant VIE. However, if the VIE Entities, or their respective shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective under PRC laws. For example, if the shareholders of the VIE Entities were to refuse to transfer their equity interest in the VIE Entities to us or our designee if we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated variable interest entity should be interpreted or enforced under PRC laws. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC laws, rulings by arbitrators are final and parties cannot appeal arbitration results in court unless such rulings are revoked or determined unenforceable by a competent court. If the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our consolidated variable interest entities, and our ability to conduct our business may be negatively affected.

The shareholders of the VIE Entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

We have designated individuals who are PRC citizens to be nominee shareholders of our VIE Entities in China. Among all shareholders of our VIE Entities, Mr. Dikuo Bo currently serves as our Vice President. None of the VIE Entities' shareholders beneficially owns more than 1% of the total outstanding ordinary shares of our company. Their interests in Ran Yu, Bei Xun, Hong Feng, Shun Fu Hui and Chun Da may differ from the interests of our company as a whole.

The shareholders of our VIE Entities may have potential conflicts of interest with us. These shareholders may breach, or cause our VIE Entities to breach, or refuse to renew, the existing contractual arrangements we have with them and our VIE Entities, which would have a material and adverse effect on our ability to effectively control our VIEs and receive economic benefits from them. For example, the shareholders may be able to cause our agreements with Ran Yu, Bei Xun, Hong Feng, Shun Fu Hui and Chun Da to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we could exercise our purchase option under the exclusive option agreement with these shareholders to request them to transfer all of their equity interests in Ran Yu, Bei Xun, Hong Feng, Shun Fu Hui and Chun Da to a PRC entity or individual designated by us, to the extent permitted by PRC laws. If we cannot resolve any conflict of interest or dispute between us and the shareholders of the VIE Entities, we would have to rely on legal proceedings, which could result in the disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

Contractual arrangements in relation to the VIE Entities may be subject to scrutiny by the PRC tax authorities and they may determine that we, or the VIE Entities, owe additional taxes, which could negatively affect our financial condition and the value of your investment.

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the VIE contractual arrangements were not entered into on an arm's-length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and which would adjust the income of our VIE Entities in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by our VIE Entities for PRC tax purposes, which could in turn increase their liabilities without reducing our WFOEs' tax expenses. In addition, the PRC tax authorities may impose late payment fees and other penalties on our VIE Entities for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if our VIE Entities' tax liabilities increase or if it is required to pay late payment fees and other penalties.

Risks Related to Doing Business in China

PRC economic, political and social conditions as well as government policies could adversely affect our business and prospects.

We conduct businesses in the PRC, and therefore our financial conditions and results of operations are largely subject to influences from PRC's economic, political and social conditions. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate and control of foreign exchange and allocation of resources. The PRC government also exercises significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, regulating financial services and institutions and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth in the past three decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. We cannot predict whether changes in the PRC's economic, political and social conditions and in its laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations. In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and improving process may not necessarily have a positive effect on our operations and business development. For example, the PRC government has in the past implemented a number of measures intended to slow down certain segments of the economy, including the property industry, which the government believed to be overheating. These actions, as well as other actions and policies of the PRC government, could cause a decrease in the overall level of economic activity in the PRC and, in turn, have an adverse impact on our business and financial condition.

Disruptions in the international trading environment and changing international trade regulation may dampen growth in China where the majority of our customers reside, and our activities and results may be negatively impacted.

Our business is vulnerable to disruptions in the international trading environment, including those caused by adverse changes in foreign government regulations, political unrest, international economic downturns, terrorist attacks and military unrest. These disruptions in the international trading environment may affect the demand for our products, which could seriously decrease our sales.

Currently, the United States is undergoing political changes, which have created uncertainties for future United States trade policy developments. The U.S. administration has also shown inclinations to withdraw the United States from the World Trade Organization, which can lead to greater economic instability. Since mid-2018, political tensions have increased between the United States and the PRC and have escalated into a tariff war. Although on January 15, 2020, the United States and the PRC signed the Phase One trade deal, which officially agreed to the rollback of tariffs, expansion of trade purchases and renewed commitments on intellectual property, technology transfer and currency practices, any future re-adoption or expansion of United States trade restrictions and tariffs, quotas and embargoes, or further escalation of the United States and PRC trade war, could adversely impact our business operations.

The legal system of the PRC is not fully developed and there are inherent uncertainties that may affect the protection afforded to us.

Our business and operations in China are governed by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various industries in China. However, as these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistency. Some of the laws and regulations are still in the developmental stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in China, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the preemption of local regulations by national laws. As a result, there is substantial uncertainty as to the legal protection available to us. Furthermore, due to the limited volume of published cases and the nonbinding nature of prior court decisions, the outcome of dispute resolutions may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC subsidiaries.

We are an offshore holding company conducting our operations in China through our PRC subsidiaries. Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries that are foreign-invested enterprises, including the proceeds of our initial public offering and private placement, are subject to PRC regulations. Loans made by us to our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of the SAFE. Currently, our PRC subsidiaries that are foreign-invested enterprises follow the statutory limit for the total amount of foreign debts which is the difference between the amount of total investment as filed with the Ministry of Commerce of the PRC, or MOFCOM, or its local counterpart and the amount of registered capital of such foreign-invested company.

We may also decide to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be filed with the MOFCOM or its local counterpart. In 2015, the SAFE published *The Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises* (“Circular 19”), which came into effect on June 1, 2015. According to Circular 19, foreign-invested enterprises are now allowed to convert their registered capital from foreign exchange to RMB and apply such funds to equity investment within the PRC, conditioned upon the investment target’s duly registration with a local bank of such reinvestment and open a corresponding special account pending foreign exchange settlement payment. Further, such conversion will be handled at the bank level and does not need to be approved by the SAFE. SAFE Circular 19 prohibits foreign-invested enterprises from, among other things, using an RMB fund converted from its foreign exchange capital for expenditure beyond its business scope, investment in securities, providing entrusted loans, repaying loans between nonfinancial enterprises or purchasing real estate not for self-use.

The SAFE promulgated *The Circular on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account* (“Circular 16”), effective on June 9, 2016, which reiterates some of the rules set forth in the SAFE Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to issue RMB entrusted loans, to the prohibition against using such capital to issue loans to non-associated enterprises.

In 2017, the SAFE has published *The Circular of the State Administration of Foreign Exchange on Further Advancing the Reform of Foreign Exchange Administration and Improving Examination of Authenticity and Compliance* (“Circular 3”), which came into effect on January 26, 2017, and in case of any discrepancies between Circular 3 and previous provisions, Circular 3 shall prevail. According to Circular 3, transfer of funds under onshore guarantee for offshore loans for domestic use is permitted. A debtor may directly or indirectly transfer funds under the guarantee for domestic use by domestic lending, equity investment or otherwise. However, Circular 3 continues to implement and improve the policy for outward remittance of foreign exchange profit generated from direct investment.

In 2018, the PBOC published *The Circular of the People’s Bank of China on Further Improving Cross-Border RMB Service Policies to Promote Trade and Investment Facilitation* (“PBOC Circular 3”). PBOC Circular 3 further facilitates direct investment in RMB of overseas investors. Where the RMB capital and overseas loans of a foreign-invested enterprise are used for wages, travel expenses, and minor purchase and other expenditures, such expenditures to the enterprise’s payment order could be handled directly by the bank on the basis of the three principles for business development. Profits, dividends, and other investment returns legally obtained within China by overseas investors could be settled and freely remitted out of China after examining the relevant supporting materials as required by banks.

If we fail to comply with such regulations, our ability to capitalize the relevant PRC subsidiaries or fund our operations may be negatively affected, which could materially and adversely affect the liquidity of our relevant PRC subsidiaries or our business, financial condition, results of operations and growth prospects.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulations of Internet-related businesses and companies, and any lack of requisite licenses, permits or approvals applicable to our business may have a material adverse effect on our business and results of operations.

The PRC government extensively regulates the Internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These Internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

We only have contractual control over the entities that provide Internet information provision services in China. We do not directly own such entities due to the restriction on foreign investment in businesses providing value-added telecommunication services in China, including Internet information provision services. This may significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us.

The evolving PRC regulatory system for the Internet industry may lead to the establishment of new regulatory agencies. For example, in May 2011, the State Council announced the establishment of a new department, the Cyberspace Administration of China (“CAC”), with the involvement of the State Council Information Office, the Ministry of Industry and Information Technology (“MIIT”), and the Ministry of Public Security. The primary role of this new agency is to facilitate the policy-making and legislative development in this field, to direct and coordinate with the relevant departments in connection with online content administration and to deal with cross-ministry regulatory matters in relation to the Internet industry.

In addition, our provision of certain services online may subject us to license requirements in China. For instance, we provide some recorded videos as a way of customer education and occasionally launch other audio-video contents on our platform and our community, which may result in audio-video license requirements from the State Administration of Press, Publication, Radio, Film and Television (“SAPPRFT”). We also provide some digital works on our website and APP, which may require online publishing service license issued by the SAPPRFT. In addition, we reprint some articles related to the stock market on our website and APP, and therefore may be subject to permit and approval requirements from the State Council Information Office. Furthermore, we also need to strictly follow the requirements applicable to online content providers set forth by the relevant regulatory authorities, especially for financial information. Failure to comply with these license or other requirements may subject us to penalties, which may adversely affect our business operations and reputation.

The interpretation and application of the existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the Internet industry have created substantial uncertainties regarding the legality of the existing and future foreign investments in, and the businesses and activities of, Internet businesses in China, including our business. We cannot assure you that we have obtained all the permits or licenses related to our Internet related business in China that might be required for conducting our supporting functions in China or will be able to maintain our existing licenses or obtain new ones. In the event that the PRC government considers that we were operating without the proper approvals, licenses or permits, promulgates new laws and regulations that require additional approvals or licenses, or imposes additional restrictions on the operation of any part of our business, it has the power, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material adverse effect on our business and results of operations.

Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your investment.

Appreciation or depreciation in the value of Renminbi relative to U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business, financial condition or results of operations. Renminbi may appreciate or depreciate significantly in value against U.S. dollar in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of Renminbi against U.S. dollar.

The reporting currency of our company is the U.S. dollar. However, the functional currency of our consolidated operating subsidiaries and variable interest entity is the Renminbi and substantially all of their revenues and expenses are denominated in Renminbi. Appreciation or depreciation in the value of the Renminbi relative to U.S. dollars would affect our financial results reported in U.S. dollar terms regardless of any underlying change in our business or results of operations. Fluctuations in exchange rates, primarily those involving the U.S. dollar, may affect the relative purchasing power of these proceeds. It will also affect the relative value of earnings from, and the value of any U.S. dollar-denominated investments we make in the future. If we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

The hedging options available in China to reduce our exposure to exchange rate fluctuations are quite limited. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure adequately or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

Certain of our leased property interests may be defective and our right to lease the properties affected by such defects may be challenged, which could cause significant disruption to our business.

We have entered into leases with various enterprises and individuals for our office space, warehouse, training centers and other purposes. Some of our leases have deficiencies. Our lease for Shanghai Zhenhua Enterprise Square, with an aggregate of approximately 4,697 square meters, the registered uses for such building and its underlying land do not include use by an industrial or commercial company like ours. Therefore, the lease of such a property to us shall be subject to approval by the competent government authorities and may be subject to payment of premium fees to the government by the lessor. We cannot ensure that the lessor has completed all or any of the necessary formalities with the relevant governmental authorities. Our lease for Shanghai Shangbo Park with an aggregate of approximately 4,371 square meters. Possible violation of relevant land reservation regulation will subject us to the risk of lease termination and relocation.

Our group extended our office leasing contracts in December 2019. We may face uncertainties to our operation if the lease agreement could not be renewed in the future.

We have not registered any of our lease agreements with relevant PRC governmental authorities as required by PRC law, and although failure to do so does not in itself invalidate the leases, we may not be able to defend these leases against bona fide third parties. Currently, we are not aware of any actions, claims or investigations being contemplated by government authorities with respect to the defects in our leased real properties or any challenges by third parties to our use of these properties. However, if third parties who purport to be property owners or beneficiaries of the mortgaged properties challenge our right to lease these properties, we may not be able to protect our leasehold interest and may be ordered to vacate the affected premises, which could in turn materially and adversely affect our business and operating results.

The enforcement of the Labor Contract Law of the People's Republic of China, or the PRC Labor Contract Law, and other labor-related regulations in the PRC may increase our labor costs, impose limitations on our labor practices and adversely affect our business and results of operations.

On June 29, 2007, the Standing Committee of the National People's Congress of China enacted *The PRC Labor Contract Law*, which became effective on January 1, 2008 and was amended on December 28, 2012. The *PRC Labor Contract Law* introduces specific provisions related to fixed-term employment contracts, part-time employment, probation, consultation with labor unions and employee assemblies, employment without a written contract, dismissal of employees, severance, and collective bargaining, which together represent enhanced enforcement of labor laws and regulations. According to *The PRC Labor Contract Law*, an employer is obliged to sign an unfixed-term labor contract with any employee who has worked for the employer for 10 consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract must have an unfixed term, with certain exceptions. The employer must pay economic compensation to an employee where a labor contract is terminated or expires in accordance with *The PRC Labor Contract Law*, except for certain situations which are specifically regulated. In addition, the government has issued various labor-related regulations to further protect the rights of employees. According to such laws and regulations, employees are entitled to annual leave ranging from five to 15 days and are able to be compensated for any untaken annual leave days in the amount of three times their daily salary, subject to certain exceptions.

As a result of these regulations, which are designed to enhance labor protection, we expect our labor costs to increase, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to change our employment or labor practices, *The PRC Labor Contract Law* and its implementation rules may also limit our ability to effect those changes in a manner that we believe to be cost-effective. In addition, as the interpretation and implementation of these new regulations are still evolving, our employment practices may not be at all times deemed in compliance with the new regulations. If we are subject to severe penalties or incur significant liabilities in connection with labor disputes or investigations, our business and financial conditions may be adversely affected.

In addition, on December 28, 2012, *The PRC Labor Contract Law* was amended to impose more stringent requirements on labor dispatches, and such amendments became effective on July 1, 2013. For example, the number of dispatched contract workers that an employer hires may not exceed a certain percentage of the total number of employees to be decided by the Ministry of Human Resources and Social Security, and the dispatched contract workers can only engage in temporary, auxiliary or substitute work. According to *The Interim Provisions on Labor Dispatch*, or the Interim Provisions promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, the number of dispatched contract workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and dispatched contract workers). The Interim Provisions further require the employer that is not in compliance with the above provisions to formulate a plan to reduce the number of its dispatched contract workers to below 10% of the total number of its employees prior to March 1, 2016. However, if any labor contract or labor dispatch agreement legally executed prior to December 28, 2012 will expire within two years after the date of implementation hereof, such contracts or agreements may continue to be performed until the expiry thereof in accordance with the applicable law. In addition, an employer is not permitted to hire any new dispatched contract worker until the number of its dispatched contract workers has been reduced below 10% of the total number of its employees. Such limitations on use of dispatched labor may increase our labor costs and impose limitations on our employment practices, which may adversely affect our business and profitability.

Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in China are required to participate in various government-sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. The requirement to participate in employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. Our PRC operating entities incorporated in various locations in China have not made adequate employee benefit payments and we have recorded accruals for estimated underpaid amounts in our financial statements. We may be required to make up the contributions for these plans as well as to pay late fees and fines.

In December 2012, *The PRC Labor Contract Law* was amended to impose more stringent requirements on the use of employees of temporary staffing agencies, who are known in China as “dispatched workers.” Historically, we had engaged certain employment agencies to dispatch contract workers to work for us and terminated such arrangements in early 2014. Under such arrangements, these workers were employed by employment agent companies, and therefore such agent companies were responsible for paying contribution of social insurance and housing funds for the workers correspondingly. During the period that we had such arrangements with the third party employment agencies, they had shortfalls in making such contributions for the workers working for several of our subsidiaries. We have recorded accruals for estimated underpaid amounts in our financial statements. There is a risk that under the PRC law, we may be held by the labor authorities as jointly responsible together with third party employee agencies to make up the shortfall in the contribution to social insurance in relation to those workers dispatched to work for us and may be subject to additional penalties.

Regulators may impose penalties and fines with respect to shortfall in social insurance payment. A late payment fee at the rate of 0.05% per day of the outstanding amount from the due date may be imposed, and if such amounts remain outstanding beyond a prescribed time limit, a fine of one to three times the outstanding amount may be imposed. While there are no explicit quantitative statutory fines or penalties on late payments to housing funds as advised by our PRC counsel, the housing accumulation fund management center may order us to pay any housing fund shortfalls immediately. Although based on the opinion of our PRC counsel, the possibility that we will be subject to any fine or penalty is remote, if we become subject to such fines or penalties in relation to the underpaid employee benefits, our financial condition and results of operations may be adversely affected.

Any failure to comply with PRC regulations regarding the registration requirements for employee share incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Pursuant to *The Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company* issued by SAFE in February 2012, employees, directors, supervisors and other senior management participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. We and our directors, executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted restricted shares, restricted share units or options will be subject to these regulations if those employees exercise such restricted shares, restricted share units or options. Separately, SAFE Circular 37 also requires certain registration procedures to be completed if those employees exercise restricted shares, restricted share units or options before listing. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our wholly foreign-owned subsidiaries in China and limit these subsidiaries’ ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors and employees under PRC law.

In addition, the State Administration of Taxation (“SAT”) has issued certain circulars concerning employee share options or restricted shares. Under these circulars, the employees working in the PRC who exercise share options or are granted restricted share units will be subject to PRC individual income tax. The PRC subsidiaries of such an overseas listed company have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If the employees fail to pay or the PRC subsidiaries fail to withhold their income taxes according to relevant laws and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC government authorities.

We may be deemed to be a PRC resident enterprise under the Enterprise Income Tax Law, and be subject to PRC tax on our worldwide income, which may significantly increase our income tax expenses and materially decrease our profitability or otherwise adversely affect the value of your investment.

Under *The Enterprise Income Tax Law* (“EIT Law”) that took effect on January 1, 2008, partly amended and newly effective on December 29, 2018, enterprises established outside China whose “de facto management bodies” are located in China are considered to be “resident enterprises” and will generally be subject to a uniform 25% corporate income tax on their global income (excluding dividends received from “resident enterprises”). In addition, a circular issued by SAT on April 22, 2009 and amended on January 29, 2014 sets out certain standards for determining whether the “de facto management body” of an offshore enterprise funded by Chinese enterprises as controlling shareholders is located in China. Although this circular applies only to offshore enterprises funded by Chinese enterprises as controlling shareholders, rather than those funded by Chinese or foreign individuals or foreign enterprises as controlling shareholders (such as our Company), the determining criteria set forth in the circular may reflect SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of how they are funded. Although our Company is not funded by Chinese enterprises as controlling shareholders, substantial uncertainty remains as to whether our Company or any of our other non-PRC entities will be deemed PRC resident enterprises for EIT purposes. If we or any of our subsidiaries registered outside the PRC are deemed a “resident enterprise” under the EIT Law, our income tax expenses may increase significantly, and our profitability could decrease materially.

You may be subject to PRC income tax on dividends from us or on any gain realized on the transfer of our ADSs.

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of ADSs or shares by such non-PRC resident enterprise investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC unless a treaty or similar arrangement otherwise provides. Under *The PRC Individual Income Tax Law* and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of ADSs or shares are generally subject to a 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws. Although substantially all of our business operations are in China, it is unclear whether dividends we pay with respect to our ADSs, or the gain realized from the transfer of our ADSs, would be treated as income derived from sources within the PRC and as a result be subject to PRC income tax if we were considered a PRC resident enterprise, as described above. If PRC income tax were imposed on gains realized through the transfer of our ADSs or on dividends paid to our non-resident investors, the value of your investment in our ADSs may be materially and adversely affected. Furthermore, our ADS holders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.

In connection with the EIT Law, the Ministry of Finance and SAT jointly issued, on April 30, 2009, *The Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business*, or Circular 59. On February 3, 2015, SAT issued *The Announcement of the State Administration of Taxation on Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-Resident Enterprises*, or the SAT Announcement 7, partly amended on October 17, 2017 and December 29, 2017. By promulgating and implementing the above, the PRC tax authorities have strengthened their scrutiny over the direct or indirect transfer of equity interest in a PRC resident enterprise by a non-PRC resident enterprise. Pursuant to SAT Announcement 7, if a non-resident enterprise, or referred as a transferor, transfers its equity in an offshore enterprise which directly or indirectly owns PRC taxable assets, including ownership interest in PRC resident companies, or the Taxable Properties, without a reasonable commercial purpose, such transfer shall be deemed as a direct transfer of such Taxable Properties. The payer, or referred as a transferee, in such transfer shall be the withholding agent, and is obligated to withhold and remit the enterprise income tax to the relevant PRC tax authority. Factors that may be taken into consideration when determining whether there is a “reasonable commercial purpose” include, among other factors, the value constitution of the transferred equity, the offshore taxable situation of the transaction, the offshore structure’s economic essence and duration and trading fungibility.

If an equity transfer transaction satisfies all the requirements mentioned above, such transaction will be considered an arrangement with “reasonable commercial purpose.”

We may conduct acquisitions and restructuring. We believe, as advised by our PRC legal advisor, that these historical transactions do not constitute “direct or indirect transfer of the Taxable Properties,” and therefore are not subject to SAT Announcement 7. We cannot assure you that the PRC tax authorities will share this view. As a result, the PRC tax authorities may, at their discretion, impose additional PRC taxes or penalties on capital gains we generated from such historical transactions, which would incur additional costs on us.

Certain preferential tax treatments currently offered to some of our PRC subsidiaries may be discontinued, and such discontinuation or imposition of any additional taxes could adversely affect our business, financial condition and results of operations.

Yin Sai, our PRC subsidiary, received the “certified software enterprise” from Shanghai Municipal Commission of Economy and Informatization in August 2014. It also qualified as a “high-tech enterprise” in March 2019 and extended this qualification from 2018 to 2020. Yin He You, our PRC subsidiary, received the “certified software enterprise” and “certified software products” qualifications from Shanghai Software Industry Association in April 2016 and April 2015, respectively. Gold Master Technology, our PRC subsidiary, received the “certified software enterprise” and “certified software products” qualifications from Shanghai Software Industry Association in December 2016 and October 2016, respectively. In addition, Gold Master Technology Co., Ltd. received “state planning key software enterprises” in 2019. Yi Shi, our PRC subsidiary, received the “certified software enterprise” qualifications from Shanghai Software Industry Association in January 2019. Under the relevant PRC laws, regulations and rules, these subsidiaries enjoy certain preferential tax treatments, under which Yin Sai’s income tax rate is 15% from 2018 to 2020, Yin He You’s income tax rate is 0% in 2015 and 2016 and 12.5% from 2017 to 2019, and Gold Master Technology Co., Ltd.’s income tax rate is 0% in 2016 and 2017, 10% in 2018 and 12.5% from 2019 to 2020, and Yi Shi’s income tax rate is 0% for the first two years from the year in which it starts making profit and 12.5% for the third year to the fifth year. Furthermore, the subsidiaries may be qualified to receive a refund on value added tax, or VAT, from its sale of self-developed and self-produced software products. The refund-upon-collection policy shall be applied to the portion of actual VAT burden in excess of 3% after VAT has been collected at a tax rate of 13% after tax reforms in April 2019. If the subsidiaries fail to maintain their qualification or if the preferential period expires without being renewed, they may lose the tax preferential treatments, which could have a material adverse effect on our business, financial condition and results of operations.

The audit report included in this annual report is prepared by an auditor in PRC that is not subject to the inspection by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.

Auditors of companies that are registered with the United States Securities and Exchange Commission, and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the Public Company Accounting Oversight Board (“PCAOB”), and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because we have substantial operations within the PRC and the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities, our auditor’s work related to our operations in China is not currently inspected by the PCAOB. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor’s audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Risks Related to the ADSs

The trading prices of our ADSs are likely to be volatile, which could result in substantial losses to investors.

The trading prices of our ADSs are likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other similarly situated companies that have listed their securities in the United States in recent years. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of these companies' securities after their offerings may affect the attitudes of investors toward such companies listed in the United States, which consequently may affect the trading performance of our ADSs, regardless of our actual operating performance. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States and other jurisdictions.

In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for factors specific to our own operations, including the following:

- variations in our revenue, earnings and cash flow;
- announcements of new investments, acquisitions, strategic partnerships, or joint ventures;
- announcements of new services and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- changes in the number of our users;
- fluctuations in our operating metrics;
- failure on our part to realize monetization opportunities as expected;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;
- detrimental negative publicity about us, our competitors or our industry;
- regulatory developments affecting us or our industry; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade.

In the past, shareholders of a public company often brought securities class action suits against us following periods of instability in the market price of that company's securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

We may grant employee share options and other share-based awards in the future. We will recognize share-based compensation expenses in our consolidated statements of comprehensive income and other comprehensive income in accordance with U.S. GAAP. Any additional grant of employee share options and other share-based awards in the future may have a material adverse effect on our results of operations.

We have adopted and may adopt employee share option plans for the purpose of granting share-based compensation awards to our employees, officers and directors to incentivize their performance and align their interests with ours. As of March 31, 2020, restricted share units and options to purchase 61,277,720 ordinary shares are issued and outstanding under the Amended and Restated 2013 and 2014 Share Scheme and the Pre-IPO RSU Scheme. As a result, we incurred share-based compensation of RMB169.7 million in 2017, RMB27.1 million in 2018 and RMB26.3 million (US\$3.78 million) in 2019. For more information on these share incentive plans, see “Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plans.” We expect to continue to incur significant share-based compensation expenses in the future. The amount of these expenses is calculated based on the fair value of the share-based awards. We account for compensation costs for all share options using a fair-value-based method and recognize expenses in our consolidated statements of comprehensive income and other comprehensive income in accordance with U.S. GAAP. The expenses associated with share-based compensation will decrease our profitability, perhaps materially, and the additional awards issued under share-based compensation plans will dilute the ownership interests of our shareholders, including holders of our ADSs. However, if we limit the scope of our share-based compensation plan, we may not be able to attract or retain key personnel who expect to be compensated by share-based awards.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for the ADSs and trading volume could decline.

The trading market for the ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades the ADSs or publishes inaccurate or unfavorable research about our business, the market price for the ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the ADSs to decline.

We will incur increased costs as a result of being a public company, particularly after we cease to qualify as an “emerging growth company”.

The Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and NASDAQ, imposes various requirements on the corporate governance practices of public companies. We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly.

As a company with less than US\$1.07 billion in revenue for our last fiscal year, we qualify as an “emerging growth company” pursuant to the Jumpstart Our Business Startups Act of 2012, as amended, or the JOBS Act. The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. However, we have elected to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We are currently plan to engage an internal control advisor for compliance and expect to incur expenses in the year of 2022. We cannot predict or estimate with any degree of certainty the amount of additional costs we may incur of such costs in the future.

We cannot predict if investors will find our ADSs less attractive because we may rely on these exemptions. If some investors find our ADSs less attractive as a result, there may be a less active trading market for our ADSs and our ADS price may be more volatile.

The sale or availability for sale, or perceived sale or availability for sale, of substantial amounts of our ADSs could adversely affect their market price.

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our ability to raise capital through equity offerings in the future. As of March 31, 2020 we had 1,460,831,635 ordinary shares outstanding. Among these shares, 329,026,100 ordinary shares are in the form of ADSs. All our ordinary shares represented by ADSs were without restriction or further registration under the Securities Act of 1933, as amended, or the Securities Act, and shares held by our existing shareholders may also be sold in the public market in the future subject to the restrictions in Rule 144 and Rule 701 under the Securities Act and the applicable lock-up agreements. We may also issue additional options in the future that may be exercised for additional ordinary shares. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs.

You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are registered under Cayman Islands law.

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our Memorandum & Articles of Association, the Companies Law of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by our minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

Shareholders of Cayman Islands exempted companies like ours have no general rights under Cayman Islands law to inspect corporate records or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our existing articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Certain corporate governance practices in the Cayman Islands differ significantly from requirements for companies incorporated in other jurisdictions such as the United States. Currently, we choose to rely on home country practice with respect to certain corporate governance matters. As a result, our shareholders may be afforded less protection than they otherwise would have under rules and regulations applicable to U.S. domestic issuers.

As a result, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would have as public shareholders of a company incorporated in the United States.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act, or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of the ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

Judgments obtained against us by our shareholders may not be enforceable in our home jurisdiction.

We are a Cayman Islands exempted company and a substantial majority of our assets are located outside the United States. A significant percentage of our current operations are conducted in China. In addition, a significant majority of our current directors and officers are nationals and residents of countries other than the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the United States federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands, China and other jurisdictions where we operate may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

There are uncertainties as to whether Cayman Islands courts would:

- recognize or enforce against us, judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and
- impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will under certain circumstances recognize and enforce a final and conclusive non-penal judgment of a foreign court of competent jurisdiction.

The depositary for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, except under limited circumstances, which could adversely affect your interests.

Under the deposit agreement for the ADSs, if you do not give instructions for voting the ordinary shares underlying your ADSs, the depositary will give us a discretionary proxy to vote those ordinary shares at the shareholders' meeting unless:

- we have failed to timely provide the depositary with notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- the voting at the meeting is to be made on a show of hands.

The effect of this discretionary proxy is that you cannot prevent our ordinary shares underlying your ADSs from being voted at the shareholder meeting, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

If we do not pay dividends in the future, you must rely on price appreciation of our ADSs for return on your investment.

Although we intend to pay dividends to our shareholders, we do not guarantee the payment of any dividends in the future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

Our board of directors may from time to time declare dividends or authorize other distributions to our shareholders, subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits, retained earnings or share premium, and provided always that in no circumstances may a dividend be paid out of share premium if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiary, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

You may not receive dividends or other distributions on our ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.

To the extent that we decide to pay a dividend or make other distributions in the future, the depositary of our ADSs has agreed to pay to you such cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities underlying our ADSs, after deducting its fees and expenses.

You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of our ADSs.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays in the United States. The depositary may refuse to deliver, transfer or register the transfers of our ADSs generally when our share register or the books of the depositary are closed, or at any time if we or the depositary think that it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason in accordance with the terms of the deposit agreement. As a result, you may be unable to transfer your ADSs when you wish to under these circumstances.

Our three founders may exert substantial influence over us and may not act in the best interests of our independent shareholders.

Our three founders, who are also our major shareholders, including Mr. Wenbin Chen, Mr. Ming Yan and Ms. Ningfeng Chen, own, in the aggregate, approximately 68.8% of our outstanding shares, as of March 31, 2020. These three founders will be in a position to exert significant influence over the affairs of our company and will be able to influence the outcome of any ordinary shareholders' resolutions, irrespective of how other shareholders vote. The interests of these three shareholders may not necessarily be aligned with the interests of our shareholders as a whole, and this concentration of ownership may also have the effect of delaying, deferring or preventing a change in control of our company.

There can be no assurance that the company will not be a passive foreign investment company for U.S. federal income tax purposes for any taxable year, which could result in adverse U.S. federal income tax consequences to U.S. Holders of ADSs or ordinary shares.

Depending upon the value of our ADSs and ordinary shares and the nature and composition of our assets and income over time, we could be classified as a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes. Based on the expected composition of our income and assets and the value of our assets, including goodwill, we do not expect to be a PFIC for the taxable year ending December 31, 2019 or in the foreseeable future. Despite our expectation, there can be no assurance that we will not be a PFIC in the current taxable year or any future taxable year as PFIC status is tested each taxable year and will depend on the composition of our assets and income and the value of our assets in each such taxable year. Our PFIC status for the current taxable year 2019 will not be determinable until the close of the taxable year ending December 31, 2019.

In general, a non-U.S. corporation is a PFIC for U.S. federal income tax purposes for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the average value of its assets (generally determined on a quarterly basis) consists of assets that produce, or are held for the production of, passive income. For purposes of the above calculations, a non-U.S. corporation that owns, directly or indirectly, at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes rents, royalties, dividends, interest and certain gains. Cash is a passive asset for these purposes. Goodwill is an active asset under the PFIC rules to the extent attributable to activities that produce active income. Although “passive income” generally includes rents, certain “active rental income” is not considered passive for purposes of determining whether a company is a PFIC.

If we were a PFIC in any taxable year in which a U.S. investor holds our ADSs or ordinary shares, the U.S. investor would generally be subject to additional taxes and interest charges on certain “excess” distributions we make and on the gain, if any, recognized on the disposition or deemed disposition of such U.S. investor’s ADS or ordinary shares, even if we are no longer a PFIC in the year of distribution or disposition. Moreover, such U.S. investor would also be subject to special U.S. tax reporting requirements.

Item 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

We established Rong Jin Hui Yin on May 18, 2011 and commenced operation in July 2011. Rong Jin Hui Yin focuses on providing commodity trading and other related services. Jin Xiang Yin Rui, another major subsidiary of ours, was incorporated in the PRC by our founders on October 24, 2012 and commenced operation on the Guangdong Precious Metals Exchange in August 2013. Its primary focus is to provide commodity trading and other related services on the Guangdong Precious Metals Exchange. We also established a number of other subsidiaries in the PRC to provide technical and other support for our online spot commodity trading business, and to sell software applications and provide supporting services to related parties and third parties.

In 2013 and 2014, we completed a series of restructurings to consolidate Rong Jin Hui Yin, Jin Xiang Yin Rui and various other PRC subsidiaries as wholly-owned PRC subsidiaries of Win Yin Financial and Information Service Company Limited, or Win Yin Financial, a company incorporated in the Cayman Islands by our founders. Mr. Wenbin Chen, Mr. Ming Yan and Ms. Ningfeng Chen, through their respective wholly-owned holding companies, held 40%, 30% and 30% of the equity interest in Win Yin Financial, respectively.

Our company, Yintech, was incorporated on November 4, 2015 in the Cayman Islands. Yintech acquired all of the ordinary shares of Yintech Enterprise from Win Yin Financial on November 6, 2015 at par value. As a result, Qian Zhong Su, Yintech Enterprise’s wholly-owned PRC subsidiary, became Yintech’s wholly-owned subsidiary. In November 2015, Qian Zhong Su initiated a series of transactions to acquire from our ultimate shareholders, Rong Jin Hui Yin, Jin Xiang Yin, Rui, Yin Sai, and their subsidiaries, as its wholly-owned PRC subsidiaries. The acquisitions were completed on November 18, 2015. On November 16, 2015, Qian Zhong Su acquired from third parties Sheng Ding, which commenced operation on the Guangdong Precious Metals Exchange in October 2015, to further expand our business on that exchange. In November and December 2015, we established Jin Dou and Jin Yi to carry out business on the Shanghai Gold Exchange (“SGE”). In March 2016, we acquired 70% equity interest in Da Xiang, which focused on mobile platform based products on the Guangdong Precious Metals Exchange. We have also established additional BVI and Hong Kong subsidiaries under Yintech for future business activities.

In April 2016, we completed an initial public offering of 7,500,000 ADSs (including the ADSs sold in connection with the over-allotment offering), representing 150,000,000 ordinary shares. On April 27, 2016, our ADS were listed on the NASDAQ Global Select Market under the symbol “YIN.” In conjunction with the completion of our initial public offering, we issued and sold 1,164,814,815 ordinary shares via private placement to MeMeStar Limited, a wholly-owned subsidiary of SINA Corporation (NASDAQ: SINA), a leading online media company serving China and the global Chinese communities.

In August 2016, we acquired 100% equity interest in Gold Master (HK) Company Limited (“Gold Master”), which offers online spot commodity trading services to individual customers in the PRC on the SGE. Leveraging the integration of Gold Master, we believe we will be able to extend our leadership from spot trading of silver to gold and further enhance our operation on the SGE.

In November 2016, we established Yintech Financial Innovation Labs in Shanghai and Boston, which focus on areas including big data, artificial intelligence and trading strategies, to provide our customers with more advanced trading strategies, reliable risk management tool kits, and intelligent services.

In July 2017, we established a joint venture with SINA to provide financial software, information and services to individual investors.

In August and November 2017, we disposed all of our subsidiaries that provided customers with services for the trading of spot commodities on the Guangdong Precious Metals Exchange and the Tianjin Precious Metals Exchange, including Rong Jin Hui Yin, Jin Xiang Yin Rui, Sheng Ding, Da Xiang and Yin Ru Yi.

In December 2017, we acquired 100% equity interest in Forthright Financial Holdings Company Limited (“Forthright”), which was regulated by the Securities and Futures Commission of Hong Kong, to provide brokerage services to individual and institutional customers for a variety of securities and financial products traded on global capital markets.

In 2017, we established and acquired certain subsidiaries to provide futures commodities trading services, securities advisory and information platform services, and asset management services.

On December 4, 2018, Forthright acquired OTS Capital Management Co., Ltd. (“OTS”), a Securities and Futures Commission (“SFC”) registered asset management firm based in Hong Kong focusing on fundamental and value investment strategies in the secondary market. Established in 2015, OTS is a licensed corporation permitted to carry out Type 4 regulated activity (advising on securities) and Type 9 regulated activity (asset management) under the Securities and Futures Ordinance. OTS is regulated by the SFC and provides asset management services to individual and institutional customers for a variety of financial products traded on global capital markets, including stocks, bonds, ETFs and commodities.

On April 3, 2019, Forthright successfully secured Type 2 and Type 5 regulatory licenses from the SFC. With the addition of these licenses permitting Forthright to deal in futures and advise on futures contracts, Financial Holdings Company Limited is able to expand its business from securities to a full-service brokerage for private and institutional clients, including securities and futures trading, margin financing, securities and futures advisory, as well as asset management.

Our principal executive offices are located at 3rd Floor, Lujiazui Investment Tower, No.360 Pudian Road, Pudong New Area, Shanghai 200125, People’s Republic of China. Our telephone number at this address is +86-21-2028-9009. Our registered office in the Cayman Islands is located at Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, Suite 4D, New York, New York 10017. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, Suite 4D, New York, New York 10017.

B. BUSINESS OVERVIEW

Overview

Yintech Investment Holdings Limited (“Yintech” or the “Company”) is a leading provider of comprehensive investment and trading services, specifically we strive to provide best-in-class financial information, investment tools and services primarily to individual customers utilizing the latest financial technology and mobile platform. We have grown to be the No.1 online provider of spot commodity trading for the years of 2014-2016 according to Euromonitor. Since the second half of 2017, we have steadily expanded our portfolio of products and services to provide diversified investment choices to our customers with various risk preferences. In around two years, we have transformed from a single service provider to a comprehensive financial trading and investment service provider and have formed five lines of products and services. We currently are focusing on providing two categories of services: (i) commodities services, which include the trading of spot and futures commodities; and (ii) securities services, including securities advisory and information services, overseas securities trading services, and asset management services.

We have achieved substantial growth since our commencement of operation to the first half of 2017. In the second half of 2017, our business experienced downturn primarily because of our business transformation, resulting in a slight decline in total revenues in 2017, and dramatic drop of total revenues in 2018. In 2019, we delivered strong financial results after two and half year’s development under the new product and services territory. Our revenues were RMB2,719.5 million in 2016 and slightly dropped to RMB2,448.9 million in 2017, and further dropped to RMB1,094.7 million in 2018. We achieved RMB1,691.8 million (US\$243.0 million) in revenues in 2019. We recorded net income of RMB925.7 million and RMB467.0 million in 2016 and 2017. We incurred net loss of RMB873.4 million in 2018 because of the aforementioned business transformation. In 2019, we returned to profitability with net income of RMB130.6 million (US\$18.8 million).

Commodities Services

Our commodities services consist of services provided for spot commodities trading on the SGE, futures commodities trading mainly on the Shanghai Futures Exchange, Dalian Commodity Exchange and Zhengzhou Commodity Exchange.

In 2019, we generated net commissions and fees from commodities services of RMB881.4 million (US\$126.6 million), compared to RMB604.4 million in 2018.

Spot Commodities Trading

We facilitate the trading by individual customers of gold, specifically, Au (T+D) and mAu (T+D) and silver, specifically Ag (T+D) on the SGE, which was established and supervised by the People’s Bank of China.

We provide our customers with comprehensive services, including account opening for institutional customers as a comprehensive member of SGE, investor education, market information, research, live discussion boards and real-time customer support. Most services are delivered online through our proprietary client software and call center, and we do not operate physical branches. Our client software provides not only market information and analysis, but also interactive functions including live discussion boards and instant messaging with customer service representatives, which we believe enhance our customers’ engagement. Internally, we collect and analyze customer behavior and communications data from our client software, customer relationship management system and public information, which allow us to better understand, attract and serve our customers.

Trading Model

Trading participants on the SGE mainly include individual and institutional customers, financial members, comprehensive members and proprietary members (members trading for their own accounts). Trading participants may submit orders to buy or sell a certain commodity with a specified price and quantity, which will be matched with other participants’ orders to sell or buy such commodity, and the trade is executed via the exchange’s trading system. The proprietary member is only allowed to conduct proprietary trading, while the comprehensive member and financial member are allowed to conduct proprietary trading and agent business for institutional customers. In addition, a financial member could also conduct agent business for individual customers. A financial member may use agents to develop and service customers. We are a comprehensive member and an agent of several financial members on the SGE. The majority of our spot commodities business is conducted through acting as an agent to financial members on SGE.

Deposit and Cash Settlement

The SGE typically designates one or more banks to serve as depositories for all trading participants. The SGE opens its segregated deposit accounts and enters into custodian arrangements with such designated banks for fund deposits and withdrawals made by its members or members' customers. A member will enter into a tri-party depository service agreement with each of its customers and the designated bank, pursuant to which the customers' accounts will be set up under such member's account, instead of under the exchange's account. All customers' and members' subaccounts are segregated from each other and could only be freely withdrawn or funded by the corresponding member or customer, subject to the minimum deposit requirement.

Cash settlement is carried out on a "mark-to-market" basis by the deposit banks according to clearing instructions from the SGE during settlement hours of each trading day. If a member opens and closes a position on the same day, the profit or loss minus fees and expenses will be credited or debited to the member's deposit account (as settlement reserve). When the settlement reserve is insufficient, the member should make up the margin within a specified time limits. Otherwise, its contract will be forced to liquidate. The same system applies to the individual customer of members as well. When a customer's margin is insufficient, the member will request the increase of the margin. Otherwise, the member will have the right to forcibly liquidate the contract in accordance with the transaction agency agreement held by the customer.

Futures Commodities Trading

In May 2017, we expanded our commodities trading business from the SGE with the launch of introducing brokerage business for futures commodities trading.

Serving as an introducing broker, we introduce our customers to a number of futures companies that we cooperate with for the engagement of futures brokerage business provided by those futures companies. As an intermediary of futures, we recommend potential investors (customers) to futures companies in accordance with the qualifications for futures investors stipulated by laws and regulations. Once potential investors sign futures brokerage contracts with futures companies, we then assist those futures companies in verifying the customers' qualifications and passing customers' questions regarding account opening and trading to those futures companies. When those futures companies authorize us to provide futures trading software services customers will be able to receive updates and information of futures markets and could put trade orders which will be passed through to futures firms through our mobile APPs and the orders will be passed through to those futures companies. The futures companies, all of which are supervised by the CSRC and have membership qualifications at China's three futures commodities exchanges, pass through our customers' orders to the exchanges and also provide clearing services.

Pursuant to our introducing brokerage agreements with the futures firms, they would pay us commissions and fees based on their commission revenue generated by such customers and their related expenses incurred from the introducing brokerage cooperation.

Securities Services

Our securities services consist of securities advisory and information platform services, overseas securities brokerage services and asset management services, which carry medium and low risks to our customers as compared to spot and futures commodities trading. We believe our securities services segment targets a wider range of customers and has demonstrated strong potential to grow.

In 2019, we generated net commissions and fees from securities services of RMB518.2 million (US\$74.4 million), compared to RMB337.5 million in 2018.

Securities Advisory and Information Platform Services

On May 18, 2017, we entered into an agreement to acquire 94.29% of equity interest in Guangdong Bo Zhong Securities Investment Advisory Co., Ltd. ("Bo Zhong"), which holds a securities advisory license issued by CSRC. Through Bo Zhong and Xin Hui Tong Company Limited ("Xin Hui Tong"), which is another subsidiary company of Yintech that also holds a securities advisory license issued by CSRC, we offer subscription-based securities research and investment advisory services to individual investors in China.

Our service offerings are used by and targeted at a broad range of individual investors in China. We offer a variety of services to our customers, including investment courses, trading strategy plans, abnormal fluctuation alerts, perspective of hot issues and stock analyses, and our customers are able to access our services via apps, Wechat, text message and phone. Customers may choose to subscribe for different service packages and content provided by our various investment advisors. All of the investment advisors on our platform of Bo Zhong and Xin Hui Tong are our employees and have relevant securities investment advisory qualifications.

On July 7, 2017, we entered into an agreement to form a financial software, information and services joint venture with SINA Corporation (NASDAQ: SINA) (“SINA”), a leading online media company serving China and the global Chinese communities. Pursuant to the Agreement, we and SINA took a 51.0% and 49.0% equity stake, respectively, in Sina Shi Jin (Shanghai) Information Technology Co., Ltd. (formerly known as SINA Cai Dao (Shanghai) Information Technology Co., Ltd., or the SINA Shi Jin) after completing a series of reorganization and capital increases.

SINA Shi Jin, focus on providing financial information platform services to connect individual investors and professional investment advisors. The investment advisors registered on our platform are qualified financial practitioners. Through our platform, customers may subscribe for courses in order to acquire their valuable investment perspective on a variety of investment products, including stocks, funds and gold.

Overseas Securities Brokerage Services

In September 2017, we announced the acquisition of 100% equity interest in Forthright Financial Holdings Company Limited from Mr. Ming Yan, our co-founder and director, and that we received approval from the SFC for the acquisition. The acquisition was completed in December 2017 for a total consideration of approximately RMB12.8 million.

As a licensed corporation permitted to carry on Type 1 (dealing in securities), Type 2 (dealing in futures), Type 4 (advising on securities) and Type 5 (advise on futures contracts) regulated activities from the SFC under the Securities and Futures Ordinance, Forthright Financial Holdings Company Limited is regulated by the SFC and provides full-service brokerage services to individual and institutional customers for a variety of securities and financial products traded on global capital markets, including stocks, bonds, ETFs and futures through Forthright Financial Holdings Company Limited’ proprietary mobile apps.

Forthright Financial Holdings Company Limited primarily generates revenues from trading commissions and interest of margin loans provided to customers.

Asset Management Services

We provide RMB asset management services through Shanghai Chun Da Asset Management Co., Ltd. (“Chun Da”), which completed the private investment fund manager registration with the Asset Management Association of China (“AMAC”). Chun Da develops and manages secondary market fund products, including both funds and funds of funds, targeting high net worth individuals in China.

Chun Da primarily generates revenues from recurring management fees and performance-based income from the fund products that it manages.

In 2018, we acquired OTS, a SFC registered asset management firm based in Hong Kong that focusing on fundamental and value investment strategies in the secondary market.

Established in 2015, OTS is a licensed corporation permitted to carry out Type 4 regulated activity (advising on securities) and Type 9 regulated activity (asset management) under the Securities and Futures Ordinance. OTS is regulated by the SFC and provides asset management services to individual and institutional customers for a variety of financial products traded on global capital markets, including stocks, bonds, ETFs and commodities. OTS generates revenues from recurring management fees and performance-based fees for the funds and products that it manages. OTS will provide a new and unique opportunity for us to offer investors access to a broad array of investment solutions, including a full spectrum of traditional and potentially cutting-edge innovative financial products and research and advice capabilities.

Our Business Model

Our business process can be generally divided into three stages: marketing, customer development and customer service, all of which are supported by our technology infrastructure. The following diagram illustrates this process:



Marketing: We conduct brand promotion and precision marketing to attract potential customers through both online and traditional marketing channels. Interested persons who contact us and leave their contact information with us become our potential customers. We also promote our client software through various websites and app stores. The guest version of our software is free to download and use. Through simple online registration, people get free access to the user version of our client software and become our potential customers. We do not conduct cold calls. We also use popular interactive social media such as Weibo and Wechat to attract potential customers.

Customer development: Our customer representatives interact with potential customers through the call, text message and instant messaging function in our client software. Our representatives begin building relationships with our potential customers in anticipation that they will open a trading account or subscribe to our service offering.

Customer service: A potential customer who opens and activates a trading account or subscribes to our service offering becomes our customer. We provide more services to customers compared with potential customers, including free usage of the customer version of the client software which has richer features, as well as access to more comprehensive research reports and technical analysis tools.

Sales and Marketing

Marketing

Our marketing activities include promoting our brand recognition, attracting new customers through targeted marketing and promoting our client software, to broaden the reach of users who might become our potential customers. We employ mainly online marketing channels. Our online marketing relies mainly on search engine marketing and displaying advertisements on third party portal websites and mobile applications. We also actively promote our client software through mobile application stores. In addition, we promote our brand and software through our accounts on popular interactive social media such as Weibo and Wechat.

We focus on investing in cost-effective marketing initiatives and continuously evaluate the effectiveness of various marketing channels to optimize the allocation of our marketing spending. We incurred advertising expenses of RMB424.9 million, RMB223.3 million and RMB339.8 million (US\$48.8 million) for the years ended December 31, 2017, 2018 and 2019, respectively, accounting for 17.3%, 20.4% and 20.1% of total revenues for the same periods.

Customer Development

Our potential customers can initiate contact with us through call, text message and online instant message, as well as through software downloads and online registration. Our representatives generally follow up with potential customers and respond to their questions regarding relevant market, financial products and our software and services. Our representatives begin building relationships with our customers in anticipation that they will open trading accounts or subscribe to our services offering.

We use data mining to identify potential customers through an analysis of communications history and software usage records, thus improving the effectiveness of our customer development. For instance, based on our analysis, active users of our software are more likely to open a trading account with us than those who do not use our software. We have detailed internal rules regulating the conduct of our customer representatives. We also provide them with mandatory training to ensure the quality of their services. Our internal compliance team also uses our CRM system to monitor communications between our customer representatives and potential customers.

Our Services

We provide the following services to our customers:

Investor Education

We believe that investor education is critical in preparing potential customers for investment and trading. We have developed a set of educational programs designed to target customers with a variety of experience levels and investment preferences. Our education programs include macro market risk analysis, relevant governing rules and regulations, basic knowledge, rules and processes of online stock, spot and futures commodities trading, A-share securities trading knowledge, overseas securities trading, fundamental analysis methods and technical analysis methods. We offer online lectures and live video programs we produce in-house which cover a variety of topics. Most of our educational resources are easily accessible through our client software. Certain more advanced investor education materials are provided exclusively to customers who have opened and activated accounts, or customers who have subscribed to our securities advisory services offering.

Market Information Provision

We provide comprehensive market information to our customers, including real-time price quotes from various exchanges and international markets, technical indicators, market news and macroeconomic data and news. Market information is accessible by our customers and potential customers through our client software.

Research

We have professional research teams at our in-house research institutes and our Yintech Innovations Labs through which we provide fundamental and quantitative research support services to our customers. Our research staff members possess various professional qualifications in securities, futures and commodity trading. Our research services include research reports, online lectures, live market commentaries and quantitative analysis. Our research reports include daily, monthly and special event reports. Our research team also develops various quantitative analysis models and tool kits that can be used by our customers through our client software.

Live Discussion Boards

Our client software not only provides market information and investor education to users, but also provides live discussion boards for the users to communicate with our research personnel and among themselves, with respect to market trends, investment opportunities and other related topics.

Customer Support

We are committed to providing high-quality customer support. Most of our services, including investor education, market information provision and research support services, are accessible through our client software, which we believe provides a positive experience for our customers due to its user-friendliness and easy access. Besides our client software, we have a dedicated team of customer service personnel that handles real-time customer inquiries about our software, market news and research reports, and other questions, via call, text message and online instant message. We request that all our customer representatives conduct customer communications via our communication system that is closely monitored by us. In addition, our Yintech Innovation Labs have developed an intelligent servicing tool that can understand and respond to customer inquiries in real time.

In addition, we receive customer complaints from time to time. To ensure that reasonable complaints made by each customer are adequately addressed and for risk management purposes, we have established a customer complaint department at our customer service center. For a complaint received, our customer compliant officer will first confirm details of the complaint with the customer and then verify the facts with the relevant department. Based on our verification results and our internal policy, we seek to resolve complaints through discussions with the customer. The complaint and our response are recorded in the CRM system, and feedback is also provided to relevant departments. We also report complaints to the compliance department, which will check for noncompliance and advise the relevant department to take corrective measures, if necessary.

Technology and Infrastructure

The client software and the CRM system comprise our core technology infrastructure and enable us to move each key phase of our business operation online. We received the “certified software enterprise and registered software products” qualification from the Shanghai Municipal Commission of Economy and Informatization in April 2013, and received ISO9001 certification for software development in June 2014, ISO20000 certification for IT service operation and maintenance in December 2014 and ISO27001 certification for information security management in December 2014. We made substantial investments in R&D. We received GB/T29490-2013 certification for enterprise intellectual property management system in April 2017. As of December 31, 2019, we had a software research and development and maintenance team of 482 employees.

Client Software

While many of our competitors use third-party software to deliver services, we have developed a range of proprietary client software to address our customers’ needs for the different markets we operate on. Through our client software, we provide customers with timely and comprehensive market information, investor education programs, research reports, live market commentary, quantitative analysis tools and interactive customer support functions. For spot and futures commodities trading and overseas securities trading, our customers can directly place trades and view their positions through our client software. Two of our proprietary APPs have fulfilled the security protection duties required by the cybersecurity multi-level protection system (the “MLPS”) in accordance with article 21 of *The Cybersecurity Law of the People’s Republic of China*.

We believe that in-house development of our client software can shorten development cycles and improve usability of our software based on continuous customer feedback, and therefore differentiate us from our competitors.

CRM System

Our CRM system is the core IT system for customer development and customer services. Our CRM system allows us to centrally manage relationships with customers and potential customers, monitor and supervise customer communications conducted via calls, text messages and online instant messages, as well as collect and analyze customer data. We have utilized artificial intelligence technology to continuously enhance our CRM system and create more value in business areas such as marketing efficiency analysis, intelligent customer inquiry processing, 360-degree customer profiling, robo-advisor, intelligent customer services, intelligent quality monitoring and intelligent risk management. Our CRM system allows us to manage customer relationships in the following ways:

Customer communication platform. Our CRM system is integrated with our call center, online instant message and text message platform, which enables customer representatives to engage in dial-in and dial-out communications and online chats with our customers, and sends out personalized SMS for promotion and other notices.

Customer relationship management. Our CRM system also facilitates the categorization of customers and potential customers, the management of account opening procedures, account status, rebate arrangement, collection of customer complaints and advice, as well as other customer activities. Through our CRM system, our customer representatives can access customers' communication history with us, their software usage records and trading records. Such background information can help them communicate in more effective ways with our customers and potential customers.

Monitoring and auditing. All customer communications through our CRM system are recorded, including calls, text messages and online instant messages. Our compliance department conducts spot checks of our customer communications on a daily basis for any behavior that is noncompliant with our internal policies and for any irregularities. We also recently installed an automatic speech recognition system to monitor calls with customers and identify any noncompliance or irregularities. These recordings and narratives may also be used for training and quality control purposes.

Internal information distribution. Our CRM system distributes internally generated information, such as market information, research reports, new trading products, promotional information and compliance notices, to our customer representatives, which enables us to provide high-quality customer services and to maintain a consistent connection with our customers.

Human resource management. Our CRM system improves our efficiency by facilitating the allocation of existing and potential customers to our customer representatives. We can also monitor and evaluate the performance of each customer representative using data compiled by our CRM system such as the number of customers developed and the number of customer inquiries answered by each customer representative.

Compliance Monitoring. In the year of 2019, in order to implement compliance and audit requirements, our Compliance Department invested a large amount of capital and manpower in the construction and development of various compliance monitoring tools, which have been substantially completed and delivered to use by December 31, 2019, including the Silver Shield APP and Web system, the Libra System, the UGC reviewing platform and the Yintech Eye in the Sky System.

Our Focus on Utilizing Data Assets

We collect data through our client software and CRM system. Through our client software, we are able to collect data with regard to users' usage history, including log-on/off time, duration of each log-on and users' activities during each log-on session, such as watching investor education programs, reading market information or research reports and participating in the online discussion board. Through our CRM system, we can collect data about a customer's or a potential customer's communication history with us, including recorded calls between the customer and our customer representatives, duration and content of each call, text messages and online instant message records. We also obtain customers' trading records from the exchanges. All of these collected data become our data assets. Our customer representatives can access most of this data through our CRM system. We also have a dedicated big data team to analyze this data.

We believe that collection and analysis of our data assets enhance our operational efficiency and improve our business in many ways. Our data assets enable us to accurately evaluate the effectiveness of different marketing channels and, consequently, to more efficiently allocate our marketing budget. Through analysis of data on software usage, individual information and communication records, we can more accurately identify potential customers who have a high interest in opening a trading account or subscribe to our services offering and thus improve the efficiency of our customer development activities. Through our CRM system, our customer representatives can access customer-specific data, including software usage history, communication history with us and trading records, which make it easier for us to provide informed services to individual customers and enhance their experience with us.

Reliability and Business Continuity

Our client software runs on reliable hardware and software technologies with primary and back-up facilities hosted at two separate geographic locations in Shanghai and Hangzhou, respectively. In addition, both servers are located in advanced outsourced data centers with full business continuity features, including redundancy for power, telecommunications connections and daily monitoring.

We also maintain formal business continuity policies and practices aimed at ensuring rapid recovery from any business or trade interruptions. We rank each of our services according to the risks associated with potential interruptions and have also established business recovery time objectives for our services. We regularly review and test our recovery plans and controls to ensure the effectiveness of such plans and controls in meeting our business needs.

Risk Management

We have established rigorous risk management policies and practices as we believe that risk management is crucial to the success of our business. We mainly focus on three types of risks: trading-related risks, operational risks and information security risks.

Operational Risks

We are exposed to operational risks for various aspects of our business and we have formulated a series of internal procedures focusing on the risks of four key business areas. First, for advertisement, all promotion materials, webpages, information and media programs for public advertisement are reviewed by the compliance department before publication. Second, for customer development, we conduct spot checks on the audio recordings of customer development calls made by our customer representatives for any noncompliance or irregularities, and our automatic speech recognition system further facilitates such internal screening. Third, all our published research reports contain prominent disclaimers, and our research institute and compliance department will review all research reports before publication, in order to prevent the disclosure of any misleading or inaccurate information or other potential risks. Fourth, for customer service, we monitor the interactions of our customer representatives with customers through our automatic speech recognition system and through conducting spot checks on recorded conversations with customers for any noncompliance. All customer-facing employees receive compliance training upon joining us and we also provide ad hoc compliance trainings on various compliance matters to all employees. In addition, we have also established an internal whistleblower system for all employees to report any violation to the compliance department on an anonymous basis through various channels including e-mail, phone call and Wechat account.

Information Security Risks

Secure access to our customers' information and other confidential information is paramount to our business success and we are exposed to the risks that such information may be leaked or misused. We maintain strict internal practices, procedures and controls, such as providing different levels of access rights, which enable us to better protect our customers' sensitive information (including ID card number, telephone number and other personal data). We deploy advanced firewall technologies to restrict inappropriate access to our hosting facilities. Access to our information systems is granted to our internal users on an as-needed basis. Our in-house information security team monitors our websites and critical servers 24/7. We use hardware security machines to encrypt sensitive customer information in our CRM system. We received ISO27001 certification issued by British Standards Institution, the world's largest certification organization, in recognition of our information security system.

Competition

We provide investment and trading services to individual investors in China and we encounter intense competition in all of our business lines. There is a variety of financial institutions in the PRC that provide investment and trading services to individual investors. We compete primarily with PRC commercial banks, securities firms, trust companies, funds and emerging internet-based financial companies.

- Spot commodities trading: the Chinese government has made efforts to clean-up the spot commodities trading market in recent years. Since the market has been regulated, leading trading service providers like us are better positioned with less competition. In terms of the SGE, there are now approximately a dozen active trading service providers acting as agents of financial members. In addition, there are also 30 commercial banks operating as financial members on the SGE, through which individual customers can open accounts and trade gold and other precious metals. However, we believe that in most cases, these banks only offer a trading channel to their existing customers as part of their overall banking package and do not provide specialized services for spot commodity trading.

- Futures commodities trading: the futures industry in China is highly competitive and we expect competition to continue to intensify. Currently, there are 149 futures firms in the PRC that are eligible to provide futures brokerage services. In addition, there are also many introducing brokers entering the market, similar to us. We face competition mainly from these futures firms and introducing brokers.
- Overseas securities trading: for our overseas securities trading business, we primarily compete with international banks and securities firms conducting business in Hong Kong, as well as certain internet securities firms. Currently, there are 1,550 companies that are licensed to engage in Type 1 regulated activities (dealing in securities), 381 companies that are licensed to engage in Type 2 regulated activities (dealing in futures contracts), 1,715 companies that are licensed to engage in Type 4 regulated activities (advising on securities), 182 companies that are licensed to engage in Type 5 regulated activities (advising on futures contracts).
- Securities advisory and information services: there are 84 companies eligible to provide investment advisory services in the PRC. In addition, there are also 133 securities firms allowed for providing investment advisory services.
- Asset management: the asset management industry in China and Hong Kong is undergoing rapid growth. We operate in an increasingly competitive environment and compete for clients on the basis of product choices, client services, reputation and brand names. Our principal competitors include commercial banks, trust companies, independent wealth management service providers, insurance companies, asset management service providers and internet financial service companies. Currently 24,591 asset management operators are registered with Asset Management Association of China and 1,871 companies that are licensed to engage in asset management business under the Securities and Futures Ordinance of Hong Kong.

Although some of our competitors may have greater financial resources or a larger customer bases than we do, we believe that our proprietary technology platform, our focus on premier customers, our comprehensive customer services and strong brand recognition in the industry, will enable us to compete effectively in providing investment and trading services to individual customers in China.

Intellectual Property

Our trademarks, copyrights, domain names, trade secrets and other intellectual property rights are important to us in distinguishing our brand and services from those of our competitors and contribute to our ability to compete in our target markets. We rely on a combination of copyright and trademark laws, trade secret protection and confidentiality agreements with our employees, business partners and selected third-party service providers to protect our business and intellectual property rights. We also enter into confidentiality and invention assignment agreements with all executive officers and key employees and rigorously control access to proprietary technology. We also effectively limited our chances for intellectual property infringement of third-parties by purchasing copyrights of font and picture libraries.

As of March 31, 2020, we have 32 patents, including 13 patents for invention and 18 for product design. We have 182 registered trademarks in the PRC and we have applied to register for an additional of 45 trademarks. We have 186 software copyright registrations and own 184 domain names that we use in our business operations. As our brand name gains more recognition among the general public, we will work to increase, maintain and enforce our trademark portfolio as well as software and domain name registration, the protection of which is important to our reputation and the continued growth of our business.

Regulation

This section summarizes the principal current PRC laws and regulations relevant to our business and operations.

Provisions on Foreign Investment

All limited liability companies and joint stock limited companies incorporated and operating in the PRC are governed by *The Company Law of the People's Republic of China*, or the Company Law, which was amended and promulgated by the Standing Committee of the National People's Congress on December 28, 2013 and came into effect on March 1, 2014. In the latest amendment, paid-in capital registration, minimum requirement of registered capital and timing requirements of capital contribution were abolished. Foreign invested enterprises must also comply with the Company Law, with exceptions as specified in foreign investment laws.

Investments in the PRC by foreign investors and foreign-invested enterprises are regulated by *The Special Administrative Measures for the Access of Foreign Investment*, or *The Negative List*, the latest version of which was promulgated by the NDRC and the PRC Ministry of Commerce, or the MOFCOM on June 30, 2019 and became effective as of July 30, 2019 and *Catalogue of Industries for Encouraging Foreign Investment*, or *The Encouraging Catalogue*, the latest version of which was promulgated by the NDRC and the MOFCOM on June 30, 2019 and became effective as of July 30, 2019. *The Negative List* and *The Encouraging Catalogue* jointly categorize the industries into three categories: encouraged industries, restricted industries and prohibited industries. Establishment of wholly foreign-owned enterprises is generally allowed in industries outside of *The Negative List*. For the restricted industries within *The Negative List*, some are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. Foreign investors are not allowed to invest in industries in *The Negative List*.

The Negative List are generally open to foreign investment unless specifically restricted by other applicable PRC regulations. *The Negative List* expands the scope of permitted industries by reducing the number of industries that fall within the previous negative list where restrictions on the shareholding percentage or requirements on the composition of board or senior management still exists.

The Foreign Investment Law became effective on January 1, 2020 and has replaced the trio of three previous laws regulating foreign investment in China, or the Three FIE Laws, namely, *The Sino-foreign Equity Joint Venture Enterprise Law*, *The Sino-foreign Cooperative Joint Venture Enterprise Law* and *The Wholly Foreign-invested Enterprise Law*, together with their implementation rules and ancillary regulations, as the legal foundation for foreign investment in the PRC. Generally speaking, *The PRC Company Law* or *The PRC Partnership Law* shall apply with respect to an FIE's organization. This is aimed to put an end to any discrepancy between the Three FIE Laws and *The Company Law*.

The Foreign Investment Law mainly stipulates four forms of foreign investors, which includes: (a) a foreign investor, individually or collectively with other investors, establishes a foreign-invested enterprise within PRC; (b) a foreign investor acquires stock shares, equity shares, interests in assets, or other like rights and interests of an enterprise within PRC; (c) a foreign investor, individually or collectively with other investors, invests in a new project within PRC; and (d) foreign investors invest in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council. Compared with the Three FIE Laws, *The Foreign Investment Law* is profoundly different in the following aspects:

- Application of a pre-establishment national treatment. According to *The Foreign Investment Law*, the PRC governments shall govern foreign investment according to the system of pre-establishment national treatment, which requires treatment given to foreign investors and their investments during the market access stage shall not be inferior to treatment afforded to PRC domestic investors and their investment except where a foreign investment falls into the orbit of *The Negative List*.
- Application of an updated Investment Management. Pursuant to *The Foreign Investment Law*, *The State* shall establish a foreign investment information report system. Foreign investors or FIEs shall submit investment information to the competent department for commerce through the enterprise registration system and the enterprise credit information publicity system. The content and scope of information subject to the reporting obligations shall be determined under the principle of necessity. In addition, the State shall establish a security review system for foreign investment, under which a security review shall be conducted for any foreign investment affecting or having the possibility to affect the state security.

In addition, *The Foreign Investment Law* also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their policy commitments to the foreign investors and perform all contracts entered into in accordance with the law; foreign-invested enterprises are allowed to issue stocks and corporate bonds; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriate or requisition the investment of foreign investors is prohibited; mandatory technology transfer is prohibited; foreign investors' funds are allowed to be freely transferred out and into the territory of PRC, which run through the entire lifecycle from the entry to the exit of foreign investment; and providing an all-around and multi-angle system to guarantee fair competition of foreign-invested enterprises in the market economy. Furthermore, *The Foreign Investment Law* provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementation of *The Foreign Investment Law*, which means that foreign invested enterprises may be required to adjust the structure and corporate governance in accordance with *The PRC Company Law* and other laws and regulations governing the corporate governance.

On December 12, 2019, the State Council promulgated *The Implementation Regulations of Foreign Investment Law*, or *The Implementation Regulations*, which simultaneously came into force with *The Foreign Investment Law* from January 1, 2020. *The Implementation Regulations* provides specific operation rules for the principles of investment protection, investment promotion and investment management in *The Foreign Investment Law*.

Provisions on Merger and Acquisition and Overseas Listing

According to *The Provisions on Merger and Acquisition of a Domestic Enterprise by Foreign Investors*, or the M&A Rules, promulgated jointly by the MOFCOM, the SASAC, the SAT, the SAMR (formerly known as "SAIC"), the CSRC and the SAFE, beginning on June 22, 2009, overseas special purpose vehicles which are established through the acquisition of domestic companies in the PRC and are controlled by Chinese companies or individuals for the purpose of overseas listing must obtain the approval of the CSRC before overseas listing. According to the M&A Rules, if any domestic company, enterprise or natural person intends to merge an affiliated domestic company into an overseas company legally incorporated or controlled by the aforesaid domestic company, enterprise or natural person, the proposed merger shall be subject to the approval of the MOFCOM, and the parties thereto shall not circumvent the above provision through any means, including domestic investment by foreign-invested enterprises, or the Related Party M&A Rules. As none of Mr. Wenbin Chen, Mr. Ming Yan and Ms. Ningfeng Chen is a PRC citizen, our PRC legal advisor is of the view that the onshore acquisitions during our reconstruction are not subject to the Related Party M&A Rules.

Provisions on Futures Introducing Business

Under current PRC laws and regulations, future introducing brokers are under the supervision of CSRC and its local authorities and the brokers are mainly subject to the administrative measures or self-discipline rules which have been issued by competent local securities regulatory authorities or local associations. It is worth mentioning that China Futures Association (which is a nationwide association for futures business) had issued *The Measures for The Provision of Intermediary Introduction Business Commissioned by Futures Companies* (Draft for comment), or the Draft, on March 14, 2016 to seek public comments. The Draft mainly governs and enhances supervision of the conduct of future introducing brokers in all material aspects including setting the qualifications for the introducing brokers, prohibiting individuals acting as introducing brokers, formulating guidance for introducing brokerage agreements and requiring the filing procedures and so on. The Draft further provides that one introducing broker is prohibited from providing introduction services to two or more future brokerage firms concurrently and introducing one client to several future brokerage firms.

On June 4, 2019, *The Measures for the Supervision and Administration of Futures Companies* promulgated by CSRC came into force, which aims to strengthen the supervision of futures companies. The revised contents of *The Measures for The Supervision and Administration of Futures Companies* mainly include five aspects. First, improving the qualification conditions for major shareholders of futures companies, especially the controlling shareholders and the largest shareholders. Second, strengthening the shareholders management of futures companies and the obligations of shareholders. Third, improving the management of domestic branches, subsidiaries, and overseas operating institutions of futures companies. Fourth, perfecting the management requirements of futures companies for account opening and trading acts of customers. Fifth, ameliorating the management regulations on information systems of futures companies and specifying the institutional requirements for the compliant operation of information systems.

Provisions on securities Advisory Business

According to *The Securities Law of the People's Republic of China*, which was amended and came into effect on August 31, 2014, promulgated by the Standing Committee of the National People's Congress, an investment advisory institution engaging in any securities service business shall be subject to the approval of the CSRC or relevant administrative departments and obtain the securities advisory license. The requirements to apply for qualification of engagement in Securities advisory business are stipulated in *The Interim Procedures on Administration of Securities and Futures Investment Advisory*, which was issued on December 25, 1997 and effective on April 1, 1998, approved by the State Council.

With respect to securities investment advisory business, CSRC issued *The Interim Provisions on The Securities Investment Consulting Business* on October 12, 2010 and implemented from January 1, 2011 in order to regulate the securities investment consulting business carried out by securities investment advisory institutions and supervise the behavior of securities investment advisory institutions and their personnel.

Provisions on Privately Offered Fund Management Services

According to *The Securities Investment Fund Law of the People's Republic of China*, or the Fund Law, which was amended and effective on April 24, 2015, promulgated by the Standing Committee of the National People's Congress, and *The Interim Measures for the Supervision and Administration of Privately Offered Investment Funds*, or Circular 105, which was issued and effective on August 21, 2014, promulgated by the CSRC, the CSRC and its local office shall oversee and regulate the business operations of privately offered funds, and the Asset Management Association of China, or the AMAC, shall conduct self-disciplinary management of the privately offered fund sector.

According to the Fund Law and Circular 105, a privately offered fund management institution shall submit the basic information and apply to the AMAC for registration in accordance with the provisions of the AMAC. Upon the completion of the offering of a privately offered fund, the privately offered fund management institution shall undergo the recordation procedure for the fund in accordance with the provisions of the AMAC.

On April 27, 2018, PBOC, CBIRC, CSRC and SAFE jointly released *The Guidance Opinions on Regulating the Asset Management Business of Financial Institutions* ("Asset Management Guidance Opinions"). The Asset Management Guidance Opinions requires that each regulator shall further promulgate detailed rules targeting specific segments of the wealth and asset management industries.

Operational Rules of the Shanghai Gold Exchange

We are an agent of a financial member of the SGE and we are required to comply with the operational rules of the SGE to engage in online spot commodity trading services business and the agent business on the SGE. Operational rules of the SGE are summarized as below:

Membership Administration

Pursuant to *The Membership Management Measures of the SGE* issued by the SGE in 2014 and amended in 2019, business entities or other economic organizations that meet the prescribed conditions of the SGE may apply to the exchange for membership and, upon approval, engage in spot commodity trading of precious metals products within the scope authorized by the exchange. There are two types of members in the SGE, ordinary members and special members. Furthermore, SGE divides the ordinary members into three categories according to their business scope: financial members, comprehensive members and proprietary members. The proprietary members are only allowed to conduct proprietary trading, while comprehensive members and financial members are allowed to conduct proprietary trading and agent business for institutional customers. In addition, financial members can also conduct agent business for individual customers.

Pursuant to the aforesaid *Membership Management Measures of the Shanghai Gold Exchange*, a member of the SGE is required to go through an annual inspection registration procedure with the SGE in order to renew its membership qualification.

To ensure compliance by the members of relevant rules and regulations, the SGE further promulgated several measures for the resolution of non-compliances and violations by the members and their customers, including daily examination, investigation initiation policies, resolution procedures and penalty provisions, as well as dispute resolution policies for any dispute between any member and individual customer. If a comprehensive member violates the relevant regulations of the SGE, the exchange may impose penalties on such member, including oral warning, written notification, compulsory training, suspension of membership qualification, revocation of membership qualification and payment of liquidated damages.

Rules for Trading of Precious Metals Products

For the trading of gold, silver and platinum, the SGE also formulated and promulgated *The Trading Rules for Spot Commodities Trading*.

The above trading rules set out detailed provisions on product standard and quotation rules, trading methods, fee standards, cash settlement, delivery, risk control, information management and other aspects of spot trading of precious metals products, which collectively constitute the basic trading model of the SGE. Specifically, the SGE has the right to make adjustments on the trading rules based on different circumstances within a certain scope.

We are not required to comply with the trading rules of the SGE which specifically regulate the members. However, we are required to follow the trading and management rules, such as duly disclosing risks to the customers, based on the contract we entered into with a financial member of the SGE.

Risk Control

According to *The Measures of the SGE for Risk Control Management* issued by the SGE on September 16, 2014, the SGE has established the following rules for risk management of online spot commodity trading:

Position limit and major client reporting system. In order to manage risks, the SGE sets limits on the maximum single or aggregate position any individual customer can have, i.e., position limit for individual customers. Individual customers that have a position reaching the position limit may not initiate a new trade.

Risk alerting system and emergency measures. The SGE may take measures as they deem necessary to manage risks, including requesting members and investors to report irregular circumstances, sending reminders of risks, warnings or alerts. For unusual circumstances, the SGE will further take different emergency measures to eliminate and mitigate risks, such as adjusting trading hours, suspending trading, suspending adding good orders, setting a time limit on transfer, compulsory transfer, limiting cash withdrawal, increasing deposit ratio and compulsory decrease of trading orders.

Management and Settlement of Trading Funds

To manage trading funds, the SGE issued the *Measures of the SGE for Management of Member Agency Trading Funds*. Such trading management measures define the rights, obligations and liabilities of the parties involved in trading funds-related activities and set forth rules regulating the depository bank, bank account, customer trading account and member trading account.

In addition, to regulate the settlement procedures, the SGE included relevant rules in *The Implementing Rules of the Shanghai Gold Exchange for Spot Trading Funds Settlement*. However, as an agent of a financial member, we don't participate in the management and settlement of the trading funds and the relevant rules of the SGE do not apply to us.

Regulation on the SGE

On October 10, 2001, the PBOC obtained the approval of the establishment of the SGE issued by the State Council. Later on October 31, 2001, the SGE was officially set up by the PBOC and was registered by the SAIC on February 6, 2002. On December 20, 2011, the PBOC, the Ministry of Public Security, the SAIC, the China Banking Regulatory Commission, or CBRC, and the CSRC jointly issued *The Notice of Reinforcing the Management of Gold Exchanges and Platforms Which Conduct Gold Trading Business* (Yin Fa [2011] No. 301), which confirmed that the SGE is the only approved exchange for spot trading of gold and the Shanghai Futures Exchange is the only approved exchange for trading of gold futures and clarified that the SGE is under supervision of the State Council and the PBOC accordingly.

Regulations on Internet Finance

Due to the relatively short history of the Internet finance service industry in China, the PRC government has not adopted a clear regulatory framework governing it. There are ad hoc laws and regulations applicable to elements of Internet financial service-related businesses, such as laws and regulations governing payment related and value-added telecommunication services. On July 18, 2015 the PBOC together with nine other PRC regulatory agencies jointly issued a series of policy measures applicable to Internet financial services titled *The Guidelines on Promoting the Healthy Development of Internet Finance* (“Guidelines”). On April 12, 2016 the General Office of PRC State Council issued *The Implementation Plan for Special Rectification of Internet Financial Risks* (“Rectification Implementation Plan”). The Guidelines introduced formally for the first time the regulatory framework and basic principles for Internet financial services industry in China as “law-abiding regulation, appropriate regulation, classified regulation, collaborative regulation and innovative regulation.” The Guidelines further stated the definitions and basic principles for Internet financial services in the areas of Internet payment, Internet fund distribution and others. The Guidelines also specified several basic rules for Internet financial services industry administration, such as: (1) any organization or individual that intends to set up a website to provide Internet financial services shall, in addition to going through relevant financial regulatory procedures as required, also undergo website record-filing procedures with telecommunications authorities pursuant to the law; (2) unless otherwise specified, an industry player shall select qualified banking financial institutions as fund depository institutions to manage and oversee client funds, and achieve the management of client funds and its proprietary funds under separate accounts; and (3) basic rules of information disclosure, risk reminder and qualified investors, information security and anti-money-laundering. The Rectification Implementation Plan further provides that: (1) the regulators will adopt the see-through way of supervision; and (2) the non-financial institutions, or the enterprises which do not carry out financial business, shall not use the wordings, such as “exchange,” “finance,” “asset management,” “wealth management,” “fund,” “fund management,” “investment management,” “equity investment fund,” “online lending,” “peer-to-peer,” “equity crowd-funding,” “Internet insurance,” “payment” and the like, as their enterprise name or registered business. If the enterprise chooses to use the aforementioned word/words, the Administration of Industry and Commerce will inform the financial regulators. *The Notice on Further Rectification of Asset Management Business through Internet and Carrying out Inspection* issued on March 28, 2018 (“Inspection Notice”) clarifies that the Internet asset management business is licensed business and shall operate under the supervision of competent financial regulators. Internet financial activities shall be licensed. For example, to carry out the online fund/asset management plans distribution, the platform shall be licensed with the distribution qualification. The competent regulators will carry out inspection on online platforms and require that any unlicensed business cease such operation and clear any inventory before June 30, 2018. Any online platform not complying with the Inspection Notice shall be penalized.

On 28 December 2019, the 15th Meeting of the Standing Committee of the 13th National People’s Congress adopted revisions to *The Securities Law of the People’s Republic of China* (the “Securities Law 2019”), which became effective on 1 March 2020. Since China first officially adopted *The Securities Law of the People’s Republic of China* (the “Securities Law”) in 1998, the Securities Law has undergone three amendments and two revisions over the past 20 years. With 14 chapters, *The Securities Law 2019* outlines regulation details in securities issuance and trading, the takeover of listed companies, information disclosure and investor protection, among others. The new law highlights rules on the newly-devised science and technology innovation board, which will pilot a registration-based initial public offering (IPO) system. Under the current IPO system, new shares are subject to approval from the China Securities Regulatory Commission before being listed. Another major revision is the strengthened protection of investors, especially small and individual investors. *The Securities Law 2019* sets a general framework to encourage small and individual investors to take the initiative in class action lawsuits and introduces compensation in civil litigations. *The Securities Law 2019* also increases the penalties for illegal activities in the securities sector. It not only stipulates the confiscation of illegal proceeds but also pledges stricter administrative punishments.

Regulations on Internet Privacy

In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The PRC law does not prohibit ICP operators from collecting and analyzing personal information from their users. However, *The Administrative Measures on Internet Information Services* prohibit an ICP operator from insulting or slandering a third party or infringing the lawful rights and interests of a third party. Pursuant to *Decision on Strengthening Network Information Protection* promulgated by the Standing Committee of the National People's Congress in 2012, ICP operators that provide electronic messaging services must keep users' personal information confidential and must not disclose such personal information to any third party without the users' consent or unless required by law. The regulations further authorize the relevant telecommunications authorities to order ICP operators to rectify unauthorized disclosure. ICP operators are subject to legal liability if the unauthorized disclosure results in damages or losses to users. The PRC government, however, has the power and authority to order ICP operators to turn over personal information if an internet user posts any prohibited content or engages in illegal activities on the internet. In December 2011, the MIIT promulgated *The Several Provisions on Regulating the Market Order of Internet Information Services*, which became effective in March 2012. Without obtaining the consent from the users, telecommunication business operators and ICP operators may not collect or use the users' personal information. The personal information collected or used in the course of provision of services by the telecommunication business operators or ICP operators must be kept in strict confidence, and may not be divulged, tampered with or damaged, and may not be sold or illegally provided to others. The ICP operators are required to take certain measures to prevent any divulge, damage, tamper or loss of users' personal information.

In December 2012, the Standing Committee of the National People's Congress of the PRC issued *The Decision on Strengthening the Protection of Online Information*. Under this decision, ICP operators are required to take such technical and other measures necessary to safeguard information against inappropriate disclosure. To further implement this decision and relevant rules, MIIT issued *The Regulation of Protection of Telecommunication and Internet User Information* in 2013.

In November 2016, the Standing Committee of the National People's Congress issued *The Cyber Security Law*, which came into effect on June 1, 2017. *The Cyber Security Law* imposes certain data protection obligations on network operators, including that network operators may not disclose, tamper with, or damage users' personal information that they have collected, and that they are obligated to delete unlawfully collected information and to amend incorrect information. Moreover, internet operators may not provide users' personal information to others without consent. Exempted from these rules is information irreversibly processed to preclude identification of specific individuals. Also, *The Cyber Security Law* imposes breach notification requirements that will apply to breaches involving personal information.

Following the Cyber Security Law, the State Administration for Quality Supervision and Inspection and Quarantine (now incorporated into the State Market Regulatory Administration) and the China National Standardization Management Committee issued the *Personal Information Security Standards* on December 29, 2017. These standards supplement and refine *The Cyber Security Law* in many respects while further subdividing personal information into general information and sensitive information. Sensitive information, including ID number, bank account, property information and transaction information, must be collected with explicit, specific, distinct and clear user consent on a fully informed basis.

On January 23, 2019, the Office of the Central Cyberspace Affairs Commission, the MIIT, the Ministry of Public Security and the State Market Regulatory Administration jointly issued *The Notice on Special Governance of Illegal Collection and Use of Personal Information via Apps*, which restates the legal collection and use of personal information, encourages app operators to conduct security certifications and search engines and app stores to clearly mark and recommend certified apps.

On March 15, 2019, the Office of the Central Cyberspace Affairs Commission and the State Market Regulatory Administration jointly issued *The Notice on App Security Certification* and their implementation rules, according to which the state encourages app operators to voluntarily acquire app security certification, and encourages search engines and app stores to clearly identify and give priority to those that have acquired the security certification. The certification institution responsible for such app security certification is the China Cybersecurity Review Technology and Certification Center, also known as the ISCCC, and the testing institution will be determined by the ISCCC according to the certification business requirements and technical capabilities.

Labor and Personnel

In accordance with *The PRC National Labor Law*, which became effective in January 1995, and *The PRC Labor Contract Law*, which became effective in January 2008, as amended subsequently in 2012, employers must execute written labor contracts with full-time employees in order to establish an employment relationship. All employers must compensate their employees equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly abide by state rules and standards and provide employees with appropriate workplace safety training. In addition, employers in China are obliged to pay contributions to the social insurance plan and the housing fund plan for employees.

The PRC Labor Contract Law was amended by the Standing Committee of the National People's Congress on December 28, 2012 and came into force on July 1, 2013. In the amended *The PRC Labor Contract Law*, more stringent provisions are adopted specifically for labor dispatch, including more qualifications for labor dispatch, reinforced principle of equal pay for equal work and defined restrictions on positions to which labor dispatch is applicable. The above-mentioned provisions are further elaborated in *The Interim Provisions on Labor Dispatch* ("Interim Provisions") that were promulgated by the Ministry of Human Resources and Social Security on January 24, 2014 and came into force on March 1, 2014. It specifies that an employer shall strictly control the number of dispatched workers so that it shall not exceed 10% of the total number of its workers. The Interim Provisions also specify that if, before the Interim Provisions come into force, the number of dispatched workers in an employer exceeds 10% of the total number of its workers, the employer shall adjust its employment plan and reduce the proportion to the required proportion before March 1, 2016. The employer may not employ new dispatched workers unless the number of dispatched workers is reduced to the required proportion. However, if any labor dispatch agreement executed prior to, but expiring within two years of, the promulgation of the *amended PRC Labor Contract Law* (amended in 2018), such agreements may continue to be performed until their expiry dates thereof. In addition, the employment of dispatched workers by an employer pursuant to labor dispatch arrangement shall be governed by the Interim Provisions.

According to the Interim Provisions, the labor dispatch entity shall pay social insurance premiums and follow relevant social insurance procedures for the dispatched workers as required by law and as agreed upon in the labor dispatch agreements. *The Social Insurance Law of the People's Republic of China* (amended in 2018) that was promulgated by the Standing Committee of the National People's Congress on December 29, 2018 and came into force on December 29, 2018 and *The Interim Regulations on the Collection and Payment of Social Insurance Premiums* that was promulgated by the State Council on and came into force on January 22, 1999, require employers to pay basic endowment insurance, unemployment insurance, basic medical insurance, employment injury insurance, maternity insurance and other social insurance for its employees. Where an employer fails to fully pay social insurance premiums, the relevant social insurance collection agency shall order it to make up for any shortfall within a prescribed time limit, and may impose a late payment fee at the rate of 0.2% per day of the outstanding amount from the due date. If such employer still fails to make up for the shortfalls within the prescribed time limit, the relevant administrative authorities shall impose a fine of one to three times the outstanding amount upon such employer.

According to *The Regulations on the Administration of Housing Accumulation Funds* that was promulgated by the State Council on and came into force on April 3, 1999 and was amended on March 24, 2002, all employers shall deposit housing accumulation funds on behalf of their employees. Where an employer fails to make deposit registration of housing accumulation funds or fails to open housing accumulation fund accounts for its employees, it shall be ordered by the housing accumulation fund management center to complete the procedures within a prescribed time limit, and if it still fails to complete the procedures within such time limit, a fine of RMB10,000 to RMB50,000 shall be imposed thereupon. Where an employer fails to deposit or underpays the housing accumulation funds within the time limit, it shall be ordered by the housing accumulation fund management center to deposit the funds in full within such time limit.

Our PRC operating entities incorporated in various locations in China have not made adequate employee benefit payments. Further, we had historically engaged certain third party employment agencies to dispatch contract workers to work for us, and the third party employment agencies had a shortfall in making contributions of the social insurance and housing fund for the dispatched workers. For further information regarding this issue, please refer to “Risk Factors—Risks Related to Doing Business in China—Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.”

Intellectual Property Rights

According to *The Regulations on Computer Software Protection* that was amended and promulgated by the State Council on January 30, 2013 and came into force on March 1, 2013, PRC citizens, legal entities or other organizations enjoy the copyright in the software that they have developed, whether published or not. A software copyright owner shall enjoy the rights of divulgation, development, alteration, reproduction, distribution, rental, communication through information network, translation and other rights. The term of software copyrights owned by a legal entity or an organization shall be fifty years, expiring on December 31 of the fiftieth year since the first publication of such software.

According to *The Patent Law of the People’s Republic of China* that was amended and promulgated by the Standing Committee of the National People’s Congress on December 27, 2008 and came into force on October 1, 2009, the inventor or designer of any invention-creation (including inventions, utility models and designs) could apply for the patent right for such invention-creation. An invention or utility model for which patents may be granted shall have novelty, creativity and practical applicability. A patent right for inventions shall remain in force and valid for twenty years and a patent right for utility models and designs shall remain valid for ten years, both commencing from the filing date of such patent right. The patent owner shall pay an annual fee for such patent right commencing the year in which the patent right was granted. In the event that a prescribed annual fee is not paid, the patent right will terminate before the expiration of its validity period.

The Standing Committee of the National People’s Congress and the State Council have promulgated comprehensive laws and regulations to protect trademarks. *The Trademark Law of the PRC* (2019 revision) promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001, August 30, 2013 and April 23, 2019, respectively, and came into effect on November 1, 2019, and *The Implementation Regulation of the Trademark Law* (2014 revision) issued by the State Council on August 3, 2002 and amended on April 29, 2014 are the main regulations protecting registered trademarks. The Trademark Office under the State Administration for Industry and Commerce administers the registration of trademarks on a “first-to-file” basis and grants a term of ten years to registered trademarks. A trademark for which a registration application is made shall have distinctive features and be easily distinguishable, and shall not conflict with the pre-existing lawful rights of others. A registration application may be rejected if the trademark concerned is identical or similar to another trademark which has already been registered or been given a preliminary examination and approval for use on similar or same kind of goods or services. No applicant may prejudice the existing rights of others, nor may any person register a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use. A registered trademark is valid for a period of 10 years commencing from the date of registration approval and can be renewed within 12 months prior to the expiry date. Each renewal of registration will be valid for 10 years. *The Trademark Law* further provides that a trademark registrant may license its registered trademark to another party by entering into a trademark licensing agreement. Trademark licensing agreements must be filed with the Trademark Office for record-filing and announcement. The licensor shall supervise the quality of the goods on which the trademark is used, and the licensee shall guarantee the quality of such goods.

According to *The Measures for the Administration of Internet Domain Names of China* that were amended by the Ministry of Industry & Information Technology on August 24, 2017 and came into force on November 1, 2017, the principle of “first come, first serve” was adopted for the domain name registration procedure.

Foreign Exchange Administration

General administration of foreign exchange

Under *The PRC Foreign Currency Administration Rules* promulgated on January 29, 1996 and most recently amended on August 5, 2008 and various regulations issued by the SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for current account items, such as trade-related receipts and payments and payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office.

Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may not repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaged in settlement and sale of foreign exchange pursuant to relevant SAFE rules and regulations. For foreign exchange proceeds under the capital accounts, approval from the SAFE is generally required for the retention or sale of such proceeds to a financial institution engaged in settlement and sale of foreign exchange.

Pursuant to *The Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment*, or the SAFE Circular No. 59 promulgated by SAFE on November 19, 2012, which became effective on December 17, 2012 and was further amended on May 4, 2015 and on October 10, 2018, approval is not required for opening a foreign exchange account and depositing foreign exchange into the accounts relating to the direct investments. SAFE Circular No. 59 also simplified foreign exchange-related registration required for the foreign investors to acquire the equity interests of Chinese companies and further improve the administration on foreign exchange settlement for foreign-invested enterprises.

Pursuant to *The Circular on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment*, or the SAFE Circular No. 13, effective from June 1, 2015, which cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment and simplifies the procedure of foreign exchange-related registration, the investors shall register with banks for direct domestic investment and direct overseas investment.

The Circular on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise, or the SAFE Circular No. 19, which was promulgated by the SAFE on March 30, 2015 and became effective on June 1, 2015, provides that a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange administration has confirmed monetary capital contribution rights and interests (or for which the bank has registered the injection of the monetary capital contribution into the account). Pursuant to the SAFE Circular No.19, for the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding account for foreign exchange settlement pending payment with the foreign exchange administration or the bank at the place where it is registered.

The Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or the SAFE Circular No. 16, which was promulgated by the SAFE and became effective on June 9, 2016, provides that enterprises registered in the PRC may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Circular No. 16 also provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in the PRC.

According to *The Measures for Reporting of Information on Foreign Investment*, which was promulgated by the MOFCOM and the SAMR, which has replaced the SAIC, became effective on January 1, 2020, the Administrative Regulations on the Company Registration, which was promulgated by the State Council on June 24, 1994, became effective on July 1, 1994 and latest amended on February 6, 2016, and other laws and regulations governing the foreign invested enterprises and company registrations, the foreign invested enterprise shall be registered with the SAMR and shall submit investment information to the competent commercial authorities through the enterprise registration system and the national enterprise credit information publicity system.

Regulations on dividend distribution

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the Company Law of the PRC, as amended in 2004, 2005, 2013 and 2018, the Wholly Foreign-owned Enterprise Law promulgated in 1986 and amended in 2000 and 2016 and its implementation regulations promulgated in 1990 and subsequently amended in 2001 and 2014, the Equity Joint Venture Law of the PRC promulgated in 1979 and subsequently amended in 1990, 2001 and 2016 and its implementation regulations promulgated in 1983 and subsequently amended in 1986, 1987, 2001, 2011 and 2014, and the Cooperative Joint Venture Law of the PRC promulgated in 1988 and amended in 2000, 2016 and 2017 and its implementation regulations promulgated in 1995 and amended in 2014 and 2017. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as statutory reserve funds at least 10% of its after-tax profit, until the cumulative amount of such reserve funds reaches 50% of its registered capital unless laws regarding foreign investment provide otherwise. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

Tax

EIT

According to the EIT Law that was promulgated by the National People's Congress on March 16, 2007 and amended and newly effective on December 29, 2018, the enterprise income tax rate for both domestic enterprises and foreign-invested enterprises is 25% (except for certain eligible foreign invested enterprises). On December 6, 2007, the State Council promulgated *The Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China*, or the EIT Implementation Regulation, which came into force on January 1, 2008. The EIT Implementation Regulation has been lately amended and newly effective on April 23, 2019.

According to the EIT Law and the EIT Implementation Regulations, both resident and non-resident enterprises that earn income within the territory of China are subject to enterprise income tax at the rate of 25%. A non-resident enterprise without a permanent establishment in the PRC or a non-resident enterprise with a permanent establishment in the PRC whose earning income is not connected with such permanent establishment will only be subject to tax on its PRC-sourced income. The income for such enterprise will be taxed at a reduced rate of 10%, subject to the provisions of any applicable tax treaties.

According to the EIT Law and the EIT Implementation Regulations, income from equity investment between qualified resident enterprises such as dividends and bonuses, which refers to investment income derived by a resident enterprise from its direct investment in another resident enterprise, is tax-exempt income.

Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion on income, a PRC resident enterprise which distributes dividends to its Hong Kong shareholders must pay income tax according to PRC law. However, if the beneficial owner of the dividends is a Hong Kong resident enterprise that directly holds no less than 25% equity interests of the aforesaid enterprise (i.e., the dividend distributor), the distributed dividends may be subject to a reduced tax rate of 5%. If the beneficial owner is a Hong Kong resident enterprise, which directly holds less than 25% equity interests of the aforesaid enterprise, the tax levied will be 10% of the distributed dividends. Yintech Enterprise (HK) Company Limited and Forthright Securities Company Limited received Hong Kong Tax Resident Certificate in 2020, which entitle them to a reduced tax rate of 5% from 2019 to 2021.

In addition, pursuant to *The Circular of the SAT on Relevant Issues Relating to the implementation of Dividend Clauses in Tax Treaty* issued by the SAT on February 20, 2009, all of the following requirements shall be satisfied for a non-PRC tax resident enterprise to be entitled to the benefits of any applicable tax treaty for the dividends received from PRC resident companies: (1) such non-PRC resident enterprise should be a company as provided in the tax treaty; (2) such non-PRC resident enterprise must directly own a specified percentage of the equity interests and voting shares of the PRC resident company; and (3) the capital ratio of the PRC resident company directly owned by such non-PRC resident enterprise must reach a certain specified percentage in the applicable tax treaty at any time within 12 months prior to the receipt of the dividends.

Pursuant to *The Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers* (Announcement of the State Administration of Taxation [2015] No. 60) which came into effect on November 1, 2015, non-resident taxpayers which satisfy the criteria for entitlement to tax treaty benefits may, at the time of tax declaration or withholding declaration through a withholding agent, enjoy the tax treaty benefits, and be subject to follow-up administration by the tax authorities. Such taxpayers who make their own declaration shall self-assess whether they are entitled to tax treaty benefits, make truthful declaration and submit the relevant reports, statements and materials required by the relevant tax authorities.

On February 3, 2015, SAT issued *The Announcement of the State Administration of Taxation on Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-Resident Enterprises*, or *The SAT Announcement 7*. Pursuant to SAT Announcement 7, if a non-resident enterprise, or a transferor, transfers its equity in an offshore enterprise which directly or indirectly owns PRC taxable assets, including ownership interest in PRC resident company, or referred as the Taxable Properties, without a reasonable commercial purpose, such transfer shall be deemed a direct transfer of Taxable Properties. The payer, or the transferee, in the equity transfer shall be the withholding agent, and is thus obligated to withhold and remit enterprise income tax accordingly to the relevant PRC tax authorities. Factors that may be taken into consideration when determining whether there is a “reasonable commercial purpose” include components of the transferred equity, offshore tax situation of the transaction, the economic essence and duration of the offshore structure, trading fungibility and other factors. Specifically, when an equity transfer satisfies all the following requirements, such transaction will be considered an arrangement with “reasonable commercial purpose”:

(i) Transaction parties’ equity relationship falls into one of the following situations:

(1) Equity transfer or directly or indirectly holds more than 80% of the transferee’s equity;

(2) Equity transferee directly or indirectly holds more than 80% of the transferor’s equity; and

(3) A third party directly or indirectly holds more than 80% equity interest in both equity transferor and transferee.

If more than 50% (not inclusive) of a non-resident enterprise’s equity directly or indirectly derives from real estate within the PRC, the required equity holding proportions shall be 100% instead of 80%. Indirectly held equity should be calculated as the product of the equity proportion held by each enterprise within the equity holding chain.

(ii) If another indirect transfer transaction, or referred as a “contemplated transaction,” is to be executed after such transaction is consummated, the related PRC income tax burden will be no less than the PRC income tax burden associated with a transaction similar to the contemplated transaction without the consummation of such transaction.

(iii) Equity transferee pays the entire transfer consideration with its own shares or shares of other enterprises controlled by the transferee (excluding shares of listed enterprise).

Value-added Tax

According to *The Circular on Printing and Distributing the Pilot Proposals for the Collection of Value-Added Tax in Lieu of Business Tax* (CaiShui [2011] No. 110) promulgated by SAT and the Ministry of Finance on November 16, 2011 and *The Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax* (CaiShui [2016] No. 36), which was promulgated on March 23, 2016 and became effective from May 1, 2016, entities and individuals that sell services, intangible assets or immovable properties within the territory of the PRC shall pay VAT instead of business tax.

According to *The Interim Regulations of the People’s Republic of China on Value Added Tax* that was latest amended by the State Council and came into force on November 19, 2017, *The Rules for Implementation of the Interim Regulations of the People’s Republic of China on Value Added Tax* that was amended by the Ministry of Finance on October 28, 2011 and came into force on November 1, 2011, and recent tax reforms, entities and individuals that engage in the sale of commodities, provision of processing, repair and replacement services or tangible movable property leasing services or tangible movable property leasing services and import of goods within the PRC are subject to VAT at the rate of 13%, or 9% for taxpayers selling transportation, postal, basic telecommunications, construction, or immovable leasing services, selling immovable, transferring the rights to use land, and selling or importing certain kinds of specific commodities, or 6% for taxpayers selling services or intangible assets, except as otherwise specified before.

On November 27 2019, Ministry of Finance (“MoF”) and STA jointly issued *The Value-added Tax Law of People’s Republic of China* (consultation draft), or the *draft VAT Law*, to seek for public comments. The issuance of *The draft VAT Law* marked the first step in the process of both elevating the status of the VAT rules in China to a legislative form, and in harmonizing the rules for both goods and services. It is likely that the new VAT law will be promulgated and submitted for approval by the National People’s Congress in 2020.

Dividend Withholding Tax

The PRC EIT Law provides that since January 1, 2008, an enterprise income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to *The Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes*, or *The Double Tax Avoidance Arrangement* and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on *The Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties*, or *The SAT Circular 81*, issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. According to *The Circular on Several Issues regarding the “Beneficial Owner” in Tax Treaties*, which was issued on February 3, 2018 by the SAT, effective as of April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of its income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to *The Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements*.

Preferential Tax Treatment for Software Enterprise

According to *The Circular of the State Council on Printing and Issuing the Policies for Encouraging the Development of the Software Industry and the Integrated Circuit Industry* (GuoFa [2000] No. 18) promulgated by the State Council on June 24, 2000, eligible software enterprises shall enjoy preferential treatments in tax, investment and financing, research and development input, import and export and other relevant aspects.

On January 28, 2011, the State Council promulgated *The Circular of the State Council on Printing and Issuing the Policies for Further Encouraging the Development of the Software Industry and the Integrated Circuit Industry* (GuoFa [2011] No. 4), specifying that qualified software enterprises shall be exempt from business tax.

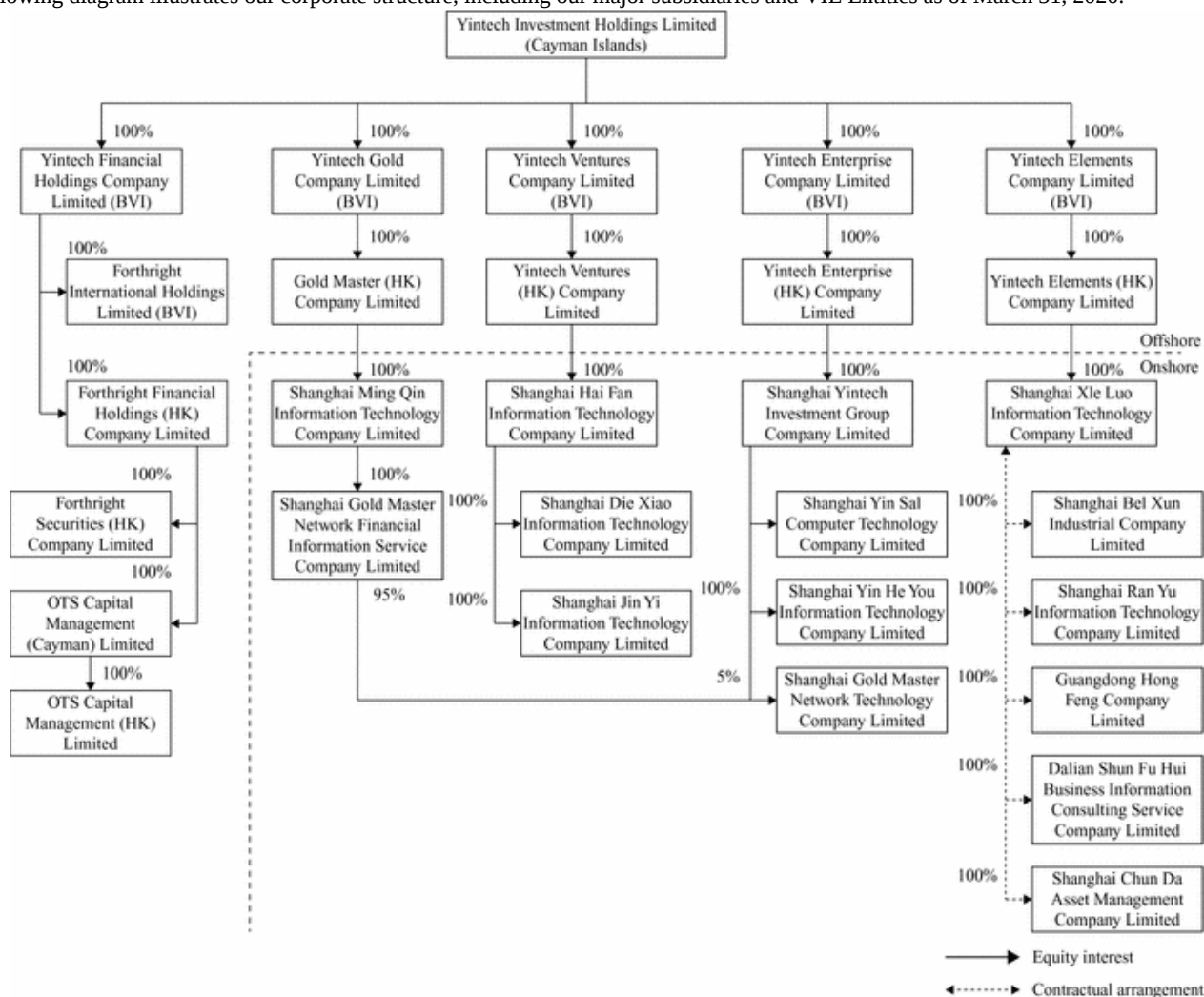
On October 13, 2011, the Ministry of Finance and the SAT promulgated *The Circular on the Policies for Value Added Tax of Software Products* (CaiShui [2011] No. 100), specifying that if a general VAT taxpayer sells self-developed and self-produced software products, the refund-upon-collection policy shall be applied to the portion of actual VAT burden in excess of 3% after VAT has been collected at a tax rate of 17%. As a result of the tax reform, the VAT tax rate is reduced to 13% from April 1, 2019.

The Ministry of Finance and the SAT promulgated *The Circular on the Enterprise Income Policies for Further Encouraging the Development of the Software Industry and the Integrated Circuit Industry* (CaiShui [2012] No. 27), or the Circular 27, on April 20, 2012. According to Circular 27, an eligible software enterprise shall, upon recognition, be exempted from the enterprise income tax for the first two years and pay the enterprise income tax at a reduced rate of half of the statutory rate of 25% from the third year to the fifth year until expiry of the preferential period.

As of the date of this annual report, four of our PRC subsidiaries enjoy the preferential income tax treatment as follows: (i) Yin Sai, was granted the “High-tech Enterprises” qualification extension in 2019 which retroactively entitles Yin Sai to a preferential tax rate of 15% from 2018 to 2020; (ii) Yin He You, received the “certified software enterprise” and “certified software products” qualifications in April 2016 and April 2015, respectively, and is eligible for an income tax exemption for the first two years from the year in which it starts making profit and is entitled to a 50% reduction of income tax for the third year to the fifth year, rendering its actual income tax rate 0% in 2015 and 2016 and 12.5% from 2017 to 2019; (iii) Gold Master Technology, received the “certified software enterprise” and “certified software products” qualifications in December 2016 and October 2016, respectively, and is eligible for an income tax exemption for the first two years from the year in which it starts making profit and is entitled to a 50% reduction of income tax for the third year to the fifth year, rendering its actual income tax rate 0% in 2016 and 2017 and 12.5% from 2018 to 2020; Gold Master Technology received “state planning key software enterprise” in 2019 and its 2018 EIT tax rate was eventually reduced to 10%; and (iv) Yi Shi, received the “certified software enterprise” qualifications in January 2019, and is eligible for an income tax exemption for the first two years from the year in which it starts making profit and is entitled to a 50% reduction of income tax for the third year to the fifth year.

C. ORGANIZATIONAL STRUCTURE

The following diagram illustrates our corporate structure, including our major subsidiaries and VIE Entities as of March 31, 2020.



D. PROPERTY, PLANT AND EQUIPMENT

Our principal executive offices are located on leased premises comprising approximately 23,800 square meters in Shanghai, China. In addition to Shanghai, we also have leased properties principally used as office premises for our operations in Beijing, Guangzhou, Shenzhen and Hong Kong, totaling approximately 5,681 square meters. We lease our premises from unrelated third parties under operating lease agreements. The lease for our principal executive offices renewed in 2019. We believe that we will be able to obtain adequate facilities, principally through leasing, to accommodate our future expansion plans.

Item 4A. UNRESOLVED STAFF COMMENTS

None.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon, and should be read in conjunction with, our audited consolidated financial statements and the related notes included in this annual report on Form 20-F. This report contains forward-looking statements. See “Forward-Looking Information.” In evaluating our business, you should carefully consider the information provided under the caption “Item 3. Key Information—D. Risk Factors” in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. OPERATING RESULTS

Key Components of Results of Operations

Revenue

Our revenues consist of net commissions and fees, net trading gains and losses, interest and investment income and other revenues.

Net Commissions and Fees

Net Commissions and fees are the largest component of our revenues and represent 89.8%, 86.0% and 82.7% of our total revenues for the years ended December 31, 2017, 2018 and 2019, respectively. The components of our net commissions and fees are set out below.

Commodities services: Commodities services comprises of commissions and fees earned from customer trading of spot and futures commodities contracts.

Securities services: Securities services comprises of commissions and fees earned from providing securities advisory and information platform services, overseas securities brokerage services and asset management services.

Our net commissions and fees largely depend on our customers’ trading volume, which is the aggregate notional value of their transactions. Our customers’ trading volume is directly influenced by individual investors’ demand for trading of commodities and securities, which is affected by the general social, economic and market conditions, as well as individual investors’ preferences on investment products. In addition, customers’ trading activities are to some extent influenced by the trading price volatility of the relevant financial products. The periods of increased fluctuations of trading prices of relevant financial product often coincide with higher levels of trading volumes by our customers.

Our net commissions and fees are also affected by the fee rate we charge our customers for our commodities, overseas brokerage services and our asset management business. A higher fee rate would generate more net commissions and fees for us. Our fee rate is primarily influenced by the standard fee rates stipulated by the exchanges we operate on, as well as the rebates we offer to our customers.

In addition, we offer a variety of online investment courses taught by talented and experienced securities advisors and licensed practitioners. The tuition fees we generate from those online courses are closely affected by the quality of the courses we offer and the overall performance of the relevant capital market, as well as general economic conditions. In good years, investors tend to trade more actively and invest more in subscribing courses. Conversely, tuition income will probably be negatively impacted in bad years because investors tend to be much more cautious with investments.

The following table sets forth our customer trading volume, active accounts, net commissions and fees and effective fee rate for the periods indicated.

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
	(except active accounts and effective fee rate)			(unaudited)
Customer trading volume (in millions)				
Commodities services	3,841,069	1,717,493	2,516,067	361,410
Securities services	—	13,190	149,511	21,476
Total	3,841,069	1,730,683	2,665,578	382,886
Commissions and fees, net (in thousands)				
Commodities services	2,177,871	604,375	881,367	126,600
Securities services	20,704	337,493	518,208	74,436
Total	2,198,575	941,868	1,399,575	201,036
Active Accounts	121,410	40,240	42,902	
Average effective fee rate (1)	0.057%	0.035%	0.035%	

(1) Represents the net commissions and fees from commodities services as a percentage of the commodities service customer trading volume.

Net Trading Gains/Losses

We recorded net trading gains, representing 1.7%, 3.1% and 12.3% of our revenues for the years ended December 31, 2017, 2018 and 2019. The following table sets forth the breakdown of our net trading gains for the periods indicated:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
		(in thousands)		(unaudited)
Spot commodity contracts	(133,116)	—	—	—
Risk and return transfer arrangement	134,678	—	—	—
Commodity futures contracts	753	—	—	—
Trading of physical commodities	(152)	—	—	—
Income from investment securities	38,391	34,103	207,743	29,841
Income from equity method investment	—	230	114	16
Total	40,554	34,333	207,857	29,857

Trading gains / (losses) consist of realized and unrealized gains and losses from exchange-traded spot commodity contracts, commodity futures contracts and risk and return transfer agreements, the realized gains from trading of physical commodities, realized and unrealized gains from equity securities investments pursuant to the adoption of ASU 2016-01, and realized gains and losses from the sale of AFS investments prior to the adoption of ASU 2016-01, all presented on a net basis. Changes in fair value in relation to spot commodity contracts, commodity futures contracts and risk and return transfer agreements are recorded in trading gains / (losses), net on a daily basis as disclosed in the accounting policy of derivative financial instruments. Trading gains / (losses) on physical commodities are recognized when title passes and measured by the difference between the acquisition cost of the commodity and the cash received or receivable.

Pursuant to the risk and return transfer agreements, our gains/(losses) arising from exchange-traded spot commodity contracts with customers were transferred to, and absorbed by the third party fund during the contract periods. Fair value movements on the risk and reward transfer agreement were recognized as trading gains/(losses). Settlements were made on a monthly basis.

Interest and Investment Income

Our interest and investment income consists of interest income from our cash deposits and available-for-sale investments, most of which are money market funds.

Other Revenues

Our other revenues include gain on disposal of subsidiaries, VAT refund, revenue from sales of application services and sales of silver products, government grants and others. The following table sets forth the breakdown of other revenues for the periods indicated:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
		(in thousands)		(unaudited)
Gain on disposal of subsidiaries	87,217	5,754	6	1
VAT refund	33,523	4,635	3,885	558
Sales of silver products	13,546	15	—	—
Sales of application services	6,475	55,513	26,173	3,760
Government grants and others	63,650	34,498	19,309	2,773
Total	204,411	100,415	49,373	7,092

Government grants and others primarily consist of financial subsidies granted by provincial and local governments. The government grants are non-recurring in nature and there is no assurance that we will continue to receive such government grants in the future.

During the years ended December 31, 2017, 2018 and 2019, we recognized VAT refund of RMB33.52 million, RMB4.64 million and RMB3.89 million (US\$0.56 million), respectively, based on the VAT preferential policy issued by the State Administration of Tax. VAT refund is recognized when there is reasonable assurance that they will be received and amounts can be reasonably estimated. VAT refund is first recorded to offset the corresponding cost recognized by us, any excess refund is recognized in other revenue. The outstanding VAT refund receivable is RMB7.69 million, RMB11.77 million and RMB1.15 million (US\$0.17 million) as at December 31, 2017, 2018 and 2019, respectively.

During the years ended December 31, 2017, 2018 and 2019, we recognized sales of application services of RMB6.48 million, RMB55.51 million and RMB26.17 million (US\$3.76 million), respectively. In 2018, we began to focus on expanding its business operation into software development, which leads to a substantial increase in application service revenue. Such type of revenues are amortized over the prescribed contract period.

In 2017, we disposed eight subsidiaries, including Sheng Ding, Da Xiang Ping Tai, Tian Jin Da Xiang, Da Xiang Shun Yi, Rong Jin Hui Yin, Jin Xiang Yin Rui, Yin Ru Yi and Yin Tian Xia Products, to third-parties. We realized a disposal gain of RMB87.22 million in total.

In 2018, we disposed one subsidiary, Tianxi, to a former management personnel of us. We realized a disposal gain of RMB5.75 million. As at December 31, 2018, the outstanding receivables related to this disposal is RMB9.60 million.

In 2019, the Group disposed one subsidiary, Xuliang, to a former management personnel of the Group. The Group realized a disposal gain of RMB6 thousand (US\$0.86 thousand). No outstanding receivables relating to disposal of subsidiaries as at December 31, 2019.

Expenses

The following table sets forth the breakdown of our expenses for the periods indicated:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
		(in thousands)		(unaudited)
Commission expense	—	(2,012)	(576)	(83)
Employee compensation and benefits	(1,066,553)	(808,292)	(841,205)	(120,832)
Advertising and promotion	(424,865)	(223,265)	(339,755)	(48,803)
Information technology and communications	(41,170)	(32,421)	(33,119)	(4,757)
Occupancy and equipment rental	(123,680)	(115,810)	(98,956)	(14,214)
Taxes and surcharges	(21,080)	(6,455)	(5,893)	(846)
Intangible assets amortization	(56,547)	(56,515)	(28,053)	(4,030)
Impairment of goodwill and intangible assets	—	(639,000)	—	—
Other expenses	(78,509)	(83,334)	(85,755)	(12,318)
Total	(1,812,404)	(1,967,104)	(1,433,312)	(205,883)

Employee Compensation and Benefits

Employee compensation and benefits include (i) salaries, wages, bonuses and other benefits, (ii) training and employee activities expenses, (iii) contributions to defined employee contribution plans, and (iv) share-based compensation expenses for our employees. Employee compensation and benefits represented 43.6%, 73.8% and 49.7% of our revenues for the years ended December 31, 2017, 2018 and 2019, respectively.

Advertising and Promotion

Our advertising and promotion expenses consist of advertising expenses and sales agent expenses.

Our advertising expenses represent expenses for placing advertisements on television, radio and newspaper, as well as on Internet websites, search engines and application stores. Our advertising expenses represented 13.0%, 18.2% and 16.5% of our revenues for the years ended December 31, 2017, 2018 and 2019, respectively.

Currently, we work with certain external sales agent companies to develop customers on the SGE and the Futures Commodity Exchanges. Our sales agent expenses represent 4.4%, 2.2% and 3.6% of our total revenue for the years ended December 31, 2017, 2018 and 2019, respectively.

The following table sets forth the breakdown of our advertising and sales agent expenses for the periods indicated:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
		(in thousands)		(unaudited)
Advertising expenses	317,843	199,368	279,691	40,175
Sales agent expenses	107,022	23,897	60,064	8,628
Total	424,865	223,265	339,755	48,803

Information Technology and Communications

Our information technology and communication expenses are primarily related to the expenses we paid for telecommunication network, servers and bandwidth, as well as data center services for hosting our servers.

Occupancy and Equipment Rental

Our occupancy and equipment rental fees primarily consists of office rental fees and server rental fees.

Taxes and Surcharges

Taxes and surcharges consist primarily of VAT and stamp duty.

Impairment of Goodwill and Intangible Assets

In 2018, we recognized an impairment loss amounting to RMB639 million which consists of an impairment of goodwill of RMB505 million and an impairment of intangible assets of RMB134 million, respectively.

Impairment of goodwill: In the fourth quarter of 2018, we tested goodwill for impairment at the reporting unit level. We historically and presently operates with one segment. For the Gold Master reporting unit, we first qualitatively assessed whether it was more likely than not that the fair values of the reporting segments were less than their carrying amounts and concluded that further impairment testing is necessary. We then performed the first step of the two-step impairment testing, where the fair value of the reporting unit of Gold Master was compared with its carrying amount. Gold Master estimated the fair values using the income approach considering factors that included expected future cash flows, growth rates and discount rates. In the fourth quarter of 2018, we recognized a RMB 505 million impairment loss for goodwill relating to the acquisition of Gold Master, primarily due to (i) the operational performance of Gold Master has failed to meet its earnings forecast and the profit outlook being uncertain; (2) less fluctuation on gold price and the deterioration of the macro market environment, based on which management determined that, these conditions had a material adverse impact on Gold Master's ability to generate revenues and net income from trading commissions. For the other reporting units, management performed qualitative assessments and concluded that it was not more-likely-than-not the fair value of these reporting units were less than its carrying amount, and further impairment testing on goodwill were unnecessary as of December 31, 2018.

Impairment of intangible assets: Gold Master's revenues for 2018 did not meet management's expectations, which indicated that the carrying value of customer list and trademark that were recognized in the acquisition of Gold Master may not be fully recoverable. As such, we performed an impairment test and recognized RMB 78 million impairment loss on customer list and RMB 56 million impairment loss on trademark related to the acquisition of Gold Master in 2018.

Other Expenses

Our other expenses consist of other miscellaneous expenses, which include consultant fees, travel and meeting expenses and other expenses.

Income Tax

Cayman Islands and BVI

Under the current laws of the Cayman Islands and BVI, the Group is not subject to tax on income or capital gains. Additionally, upon payments of dividends by Yintech to its shareholders, neither Cayman Islands nor BVI withholding tax will be imposed.

Hong Kong

Our wholly-owned Hong Kong subsidiaries are subject to Hong Kong profit tax on their activities conducted in Hong Kong. Dividends from our Hong Kong subsidiaries to us are exempt from Hong Kong withholding tax.

PRC

The subsidiaries incorporated in PRC file separate tax returns in the PRC. The PRC statutory income tax rate is 25% according to *The Corporate Income Tax Law* ("CIT Law"). Under the CIT Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends payable by a resident enterprise to investors that are non-resident enterprises, to the extent such dividends are derived from sources within the PRC, subject to any reduction set forth in applicable tax treaties. Substantially all the pretax income of us is derived from sources within the PRC.

As of the date of this annual report, four of our PRC subsidiaries enjoy the preferential income tax treatment as follows: (i) Yin Sai was granted the qualification extension of an "eligible high-tech enterprise" in 2019 which retroactively entitles Yin Sai to a preferential tax rate of 15% for years from January 1, 2018 to December 31, 2020; (ii) Yin He You, received the "certified software enterprise" and "certified software products" qualifications in April 2016 and April 2015, respectively, and is eligible for an income tax exemption for the first two years from the year in which it starts making profit and is entitled to a 50% reduction of income tax for the third year to the fifth year, rendering its actual income tax rate 0% in 2015 and 2016 and 12.5% from 2017 to 2019; (iii) Gold Master Technology, received the "certified software enterprise" and "certified software products" qualifications in December 2016 and October 2016, respectively, and is eligible for an income tax exemption for the first two years from the year in which it starts making profit and is entitled to a 50% reduction of income tax for the third year to the fifth year, rendering its actual income tax rate 0% in 2016 and 2017 and 12.5% from 2018 to 2020; (iv) Gold Master Technology Co. Ltd. received "state planning key software enterprises" in 2019 and its 2018 EIT tax rate was eventually reduced to 10%; and (v) Yi Shi, received the "certified software enterprise" qualifications in January 2019, and is eligible for an income tax exemption for the first two years from the year in which it starts making profit and is entitled to a 50% reduction of income tax for the third year to the fifth year. Our other PRC subsidiaries are subject to an income tax rate of 25%.

United States and New Zealand

The Company's subsidiary incorporated in the United States is subject to income tax charges calculated on the basis of the tax laws enacted.

The Company's subsidiary incorporated in New Zealand is subject to income tax at 28% on the basis of the tax laws enacted.

In addition, the EIT Law treats enterprises established outside of China that have "de facto management bodies" located in China as a PRC resident enterprise for tax purposes. A "de facto management body" is defined as a management body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. We currently do not believe that we or our Hong Kong subsidiaries are PRC resident enterprises but there is no assurance in this regard. If we are considered a "PRC resident enterprise" for PRC tax purposes, we would be subject to the PRC enterprise income tax on our global income. See "Risk Factors—Risks Related to Doing Business in China—We may be deemed to be a PRC resident enterprise under the EIT Law and be subject to PRC tax on our worldwide income, which may significantly increase our income tax expenses and materially decrease our profitability or otherwise adversely affect the value of your investment" and "Risk Factors—Risks Related to Doing Business in China—You may be subject to PRC income tax on dividends from us or on any gain realized on the transfer of our ADSs."

Pursuant to the EIT law and its implementation rules, dividends paid to non-PRC resident enterprise investors that are considered PRC-source are subject to a 10% withholding tax. Under *The Arrangement between Mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion on Income*, a qualified Hong Kong tax resident which is determined by the competent PRC tax authority to have satisfied relevant requirements under the *Arrangement between Mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion on Income* and other applicable PRC laws is entitled to a reduced withholding tax rate of 5%.

Critical Accounting Policies and Estimates

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur, could materially impact the consolidated financial statements. We believe that the following accounting policies involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates. The following description of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this annual report.

Revenue Recognition

On January 1, 2018, we adopted ASC 606 “Revenue from Contracts with Customers” (“ASC 606”) and applied the cumulative effect method. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and reported under the accounting standards in effect for the periods presented.

According to ASC 606, revenues are recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligation in the contract;
- Determination of the transaction price, including the constraint on variable consideration;
- Allocation of the transaction price to the performance obligation in the contracts; and
- Recognition of revenue when (or as) we satisfy a performance obligation.

(i) Commissions and Fees

We earn trading commissions, spread fees and overnight fees from operation on Tianjin and Guangdong Exchanges, which are settled on a daily basis. We earn trading commissions from operation on the Shanghai Exchange and the Futures Commodity Exchanges, which are settled on a monthly basis. Cash rebates on trading commissions and overnight fees offered by us to its customers are recorded as a reduction of revenue.

We earn securities brokerage fees from brokerage service for customers for executing and/or clearing transactions. Securities brokerage fees are recognized on a transactional basis.

We earn asset management fees from a fund management services. Management fees are computed as a percentage of the fund net asset value, calculated daily. Revenue is recognized on a daily basis over the contract term.

We provide securities advisory services, offering various types of training programs to individuals. Such programs normally last for several months. The revenues are recognized during the programs period on a straight-line, time-elapsed basis.

(ii) Trading Gains/(Losses)

Trading gains/(losses) consist of realized and unrealized gains and losses from exchange-traded spot commodity contracts, commodity futures contracts and risk and return transfer agreements, the realized gains from trading of physical commodities, realized and unrealized gains from equity securities investments pursuant to the adoption of ASU 2016-01, and realized gains and losses from the sale of AFS investments prior to the adoption of ASU 2016-01, all presented on a net basis. Changes in fair value in relation to spot commodity contracts, commodity futures contracts and risk and return transfer agreements are recorded in trading gains/(losses), net on a daily basis as disclosed in the accounting policy of derivative financial instruments. Trading gains/(losses) on physical commodities are recognized when title passes and measured by the difference between the acquisition cost of the commodity and the cash received or receivable.

(iii) Interest and Investment Income

Interest income is recognized at the effective interest rate. Investment income is recognized when earned.

(iv) Other Revenues

Other revenues primarily consist of gain on disposal of subsidiaries, income from sales of application services, sales of silver products, government grants and VAT refund.

Gain on disposal of subsidiaries are recognized when the substantive control over the subsidiaries are transferred and the disposal consideration is received or there is a reasonable assurance that they will be received.

Sales of application services comprise the sales of a license subscription bundled with customer support service during the license period. Revenue from sales of application services are recognized ratably over the term of the arrangement which is generally 1 year. During the period of the arrangement, the customer does not have the contractual right to take possession of the software at any time.

Sales of silver products are recognized when goods are delivered at the customers' premises which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax.

Government grants are recognized when there is reasonable assurance that they will be received and that we will comply with the conditions attaching to them. Grants that compensate us for expenses incurred are deducted in reporting the related expenses on a systematic basis in the same periods in which the expenses are incurred.

VAT refund are recognized when earned and there is reasonable assurance that they will be received and amounts can be reasonably estimated.

Derivative Financial Instrument

We recognize all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values.

In the normal course of business and as a comprehensive member of the exchanges, we enter into transactions in derivative financial instruments with customers. As a comprehensive member on the Guangdong Precious Metals Exchange, we are required to serve as the counterparty of the customer trading of precious metals through exchange-traded spot commodity contracts. The two exchanges quote trading prices of the spot commodity contracts with reference to the prices from relevant international and domestic spot commodities markets. We do not apply hedge accounting, as all derivative financial instruments are held for trading purposes and therefore recorded at fair value with changes reflected in earnings. Contracts with customers are traded either as long or short positions and the notional amount and fair values of the contracts in a loss position are not offset against notional amount and the fair value of contracts in a gain position. Gains and losses (realized and unrealized) on all derivative financial instruments are shown as a component of trading gains/losses), net.

In accordance with the exchanges' requirements, our customers must meet, at a minimum, the deposit requirements established by the exchanges at which the spot commodity contracts are traded. Therefore, exchange traded spot commodity contracts generally do not give rise to significant counterparty exposure due to the cash settlement procedures for daily market movements, or the variation margin, and the deposit requirements of the exchanges. The variation margin payments represent the daily settlement of the outstanding exposure of the derivative contract. Likewise, as the counterparty to the customer trades, we are also required to place deposits with custodian banks of the exchanges to meet the minimum deposit requirements. Such amount placed at banks to meet the deposit requirements is included in deposits with clearing organizations and restricted from withdrawal.

In 2016 and 2017, we traded commodity futures contracts on the Shanghai Futures Exchange to manage its exposure on spot commodity contracts and physical trading of raw silver. Commodity futures contracts are recorded at fair value with changes reflected in earnings. Gains and losses from these contracts are recorded in trading gains / (losses), net. At the end of December 31, 2017 and 2018, we have no commodity futures contracts outstanding.

In 2015, we entered into risk and return transfer agreements with a third party fund. Gains and losses from the risk and return transfer agreements are recorded in trading gains / (losses), net.

In 2016, under the New Mechanism of Tianjin Exchange, we only took the broker role in customer deals and did not take positions any more. As a result, we started to only earn trading commissions in Tianjin Exchange. By December 31, 2016, the New Mechanism has fully replaced the old mechanism and no trading gains / (losses) from Tianjin Exchange will be recorded from then on.

In 2017, with the termination of trading on the Guangdong and the suspension of trading on the Tianjin Exchange, there will be no more gains or losses arising from spot commodity contracts or the risk and return transfer agreements.

Leases

On January 1, 2019, we adopted ASU No. 2016-02, Leases (“ASC 842”) and subsequent amendments by using the modified retrospective method and did not restate the comparable periods.

We determine if an arrangement is or contains a lease at contract inception. For operating leases, we recognize an ROU asset and a lease liability based on the present value of the lease payments over the lease term on the consolidated balance sheets at commencement date. As the rate implicit in the lease cannot be readily determined, we use the incremental borrowing rate at the lease commencement date in determining the imputed interest and present value of lease payments. The incremental borrowing rate was determined using a portfolio approach based on the rate of interest that we would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms.

We have elected not to recognize ROU assets and lease liabilities for short-term leases of properties that have a lease term of 12 months or less. We recognize the lease payments associated with its short-term property leases as an expense on a straight-line basis over the lease term.

Goodwill and Intangible Assets

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Indefinite-lived intangible assets are assets that are not amortized as there is no foreseeable limit to cash flows generated from them. Intangible assets with finite useful lives are amortized over their estimated useful lives in the method that reflects the pattern in which the economic benefits of the intangible assets are consumed.

Impairment of Goodwill

We assess goodwill for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events.

We have the option to assess qualitative factors first to determine whether it is necessary to perform the two-step test. If we believe, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative impairment test described above is required. Otherwise, no further testing is required. In the qualitative assessment, we consider primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit to the fair value of the reporting unit based on either quoted market prices of the ordinary shares or estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit’s goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss.

Treasury Stock

Our accounts for treasury stock using the cost method. Under this method, the cost incurred to purchase the shares is recorded in the treasury stock account on the consolidated balance sheets. At retirement, the ordinary shares account is charged only for the aggregate par value of the shares. The excess of the acquisition cost of treasury stocks over the aggregate par value is allocated between additional paid-in capital (up to the amount credited to the additional paid-in capital upon original issuance of the shares) and retained earnings.

Income Tax

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided to reduce the carrying amount of deferred tax assets to the amount considered more likely than not to be realized. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We present any interest or penalties related to an underpayment of income taxes as part of its income tax expense.

Share-based Compensation

Win Yin Financial granted stock options and restricted share units on its shares to its employees pursuant to its 2013 Share Option Scheme, 2014 Share Option Scheme and Pre-IPO Restricted Share Unit Scheme, or the Share Incentive Plans. Pursuant to our reorganization completed on November 18, 2015, our Company became the holding company of us and the majority of the operating PRC subsidiaries under Win Yin Financial became our wholly-owned PRC subsidiaries. In connection with the reorganization, we assumed the Share Incentive Plans from Win Yin Financial and adopted the Share Incentive Plans. We issued stock options and RSUs to our employees to replace the stock options and RSUs issued by Win Yin Financial. The terms and conditions of the stock options and RSUs with respect to vesting and exercisability remain the same.

We apply ASC 718 to account for our employee share-based payments. In accordance with ASC 718, we determine whether an award should be classified and accounted for as a liability award or equity award. All grants of share-based awards to employees classified as equity awards are recognized in the financial statements based on their fair value on the grant dates. We have elected to recognize compensation expense using a straight-line method for all employee equity awards granted with graded vesting based on service conditions provided that the amount of compensation cost recognized at any date is at least equal to the portion of the grant-date value of the equity awards that are vested at that date. To the extent the required vesting conditions are not met resulting in the forfeiture of the share-based awards, previously recognized compensation expense relating to those awards are reversed. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in the subsequent period if actual forfeitures differ from initial estimates.

Forfeiture rates are estimated based on historical and future expectations of employee turnover rates and are adjusted to reflect future changes in circumstances and facts, if any. Share-based compensation expense is recorded net of estimated forfeitures such that expense is recorded only for those share-based awards that are expected to vest. To the extent we revise these estimates in the future, the share-based payments could be materially impacted in the period of revision, as well as in following periods. We, with the assistance of an independent third party valuation firm, determined the fair value of the stock options and RSUs granted to employees.

The fair value of options and RSUs granted to employees and nonemployees is determined based on a number of factors including valuations. In determining the fair value of our equity instruments, we referred to valuation reports prepared by an independent third-party appraisal firm, based on data we provided. The valuation reports provided us with guidelines in determining the fair value of the equity instruments, but we are ultimately responsible for the determination of all amounts related to share-based compensation recorded in the financial statements.

The binomial option pricing model was applied in determining the estimated fair value of the options granted to employees. The Black-Scholes option pricing model was applied in determining the estimated fair value of the RSUs granted to employees. A change in any of the terms or conditions of the stock options or RSUs is accounted for as a modification of the plan. Incremental compensation cost is measured as the excess, if any, of the fair value of the modified option over the fair value of the original option or RSU immediately before its terms are modified, measured based on the fair value of the ordinary shares and other pertinent factors at the modification date. For vested stock options or RSUs, we recognize incremental compensation cost in the period the modification occurs. For unvested stock options or RSUs, we recognize over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date. If the fair value of the modified option or RSU is lower than the fair value of the original option or RSU immediately before modification, the minimum compensation cost we recognize is the cost of the original award.

The following table presents the assumptions used to estimate the fair values of the share options and RSUs granted in the periods presented:

	2017	2018	2019
Expected volatility	47.23%	48.19%	—
Option life	5.64-9.32	5.53-6.53	—
Expected dividends	4.3%	4.27%	—
Risk-free interest rate	1.78%-2.10%	2.81%-2.85%	—

If any of the assumptions used in the binomial option pricing model or Black-Scholes option pricing model changes significantly, share-based compensation expense for future awards may differ materially compared with the awards granted previously.

The following table sets forth the options and RSUs granted under the share option plans from 2013 to the date of March 31, 2020.

Grant Date	Type of Awards	Underlying Ordinary Shares of Awards	Exercise Price US\$	Fair Value of Underlying Ordinary Shares US\$
December 3, 2013	Options	36,771,900	0.163	0.106
December 15, 2014	Options	46,524,100	0.163	0.325
January 15, 2015	RSUs	12,665,000	—	0.325
January 13, 2016	Options	13,741,271	0.163	0.406
January 13, 2016	RSUs	4,075,435	—	0.406
April 27, 2016	Options	50,000,000	0.500	0.675
November 16, 2016	RSUs	27,937,360	—	0.820
June 29, 2017	RSUs	2,962,740	—	0.483
September 6, 2017, Batch 1	Options	8,000,000	0.500	0.157
September 6, 2017, Batch 2	Options	2,000,000	0.500	0.168
December 5, 2017, Batch 1	RSUs	27,358,720	—	0.359
December 5, 2017, Batch 2	RSUs	7,556,240	—	0.379
June 21, 2018, Batch 1	Options	1,800,000	0.500	0.010
August 8, 2018	RSUs	323,580	—	0.369
November 2, 2018	RSUs	140,000	—	0.314
January 1, 2019	RSUs	2,618,380	—	0.296
March 1, 2019	RSUs	6,380,400	—	0.327
March 18, 2019	RSUs	144,000	—	0.304
June 17, 2019	RSUs	1,599,840	—	0.218
October 15, 2019	RSUs	206,040	—	0.237

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize most leases on the balance sheet and disclose key information about leasing arrangements. Topic 842 establishes a ROU model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The FASB subsequently issued amendments to clarify the implementation guidance. We adopted these standards on January 1, 2019, using a modified retrospective method for leases that exist at, or are entered into after, January 1, 2019, and has not restated comparative periods presented in the Consolidated Financial Statements. We have elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases or (3) the accounting for initial direct costs that were previously capitalized. Upon the adoption of ASC 842, we recognized ROU assets of RMB 97.61 million and lease liabilities of RMB 92.47 million in the consolidated balance sheet.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326) and Measurement of Credit Losses on Financial Instruments. The guidance replaces the incurred loss impairment methodology with an expected credit loss model for which a Group recognizes an allowance based on the estimate of expected credit loss. This ASU update on the measurement of credit losses for certain financial assets measured at amortized cost and available-for-sale debt securities. For financial assets measured at amortized cost, this update requires an entity to (1) estimate its lifetime expected credit losses upon recognition of the financial assets and establish an allowance to present the net amount expected to be collected, (2) recognize this allowance and changes in the allowance during subsequent periods through net income and (3) consider relevant information about past events, current conditions and reasonable and supportable forecasts in assessing the lifetime expected credit losses. For available-for-sale debt securities, this update made several targeted amendments to the existing other-than-temporary impairment model, including (1) requiring disclosure of the allowance for credit losses, (2) allowing reversals of the previously recognized credit losses until the entity has the intent to sell, is more-likely-than-not required to sell the securities or the maturity of the securities, (3) limiting impairment to the difference between the amortized cost basis and fair value and (4) not allowing entities to consider the length of time that fair value has been less than amortized cost as a factor in evaluating whether a credit loss exists. For public companies, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The group adopted the amendments in this ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The adoption does not have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. The changes are effective for public business entities that are SEC filers, for annual and interim periods in fiscal years beginning after December 15, 2019. We will adopt this new guidance on January 1, 2020 and does not expect the adoption to have material impact on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, “Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting” (“ASU 2018-07”), to simplify the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. Under the guidance, the measurement of equity-classified nonemployee awards will be fixed at the grant date, which may lower their cost and reduce volatility in the income statement. The guidance is effective for public business entities in annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted, including in an interim period. We adopted ASU 2018-07 on January 1, 2019 and the adoption had no material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”), which eliminates, adds and modifies certain disclosure requirements for fair value measurement. Under the guidance, public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for the changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements. The amendments removed the disclosure requirements for transfers between Levels 1 and 2 of the fair value hierarchy, the policy for timing of transfers between levels of the fair value hierarchy and the valuation processes for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. We will adopt ASU 2018-13 on January 1, 2020, and does not expect the adoption to have material impact on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Tax (Topic 740), Simplifying the Accounting for Income Taxes (“ASU 2019-12”), which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Topic 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance is effective for public business entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. We are in the process of evaluating the impact of ASU 2019-12 on the consolidated financial statements.

In January 2020, the FASB issued ASU No. 2020-01, clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The ASU clarifies that if as a result of an observable transaction, an equity investment under the measurement alternative is transitioned into equity method and vice versa, an equity method investment is transitioned into measurement alternative, the investment is to be remeasured immediately before and after the transaction, respectively. The ASU also clarifies that certain forward contracts or purchased options to acquire equity securities that are not deemed to be derivatives or in-substance common stock will generally be measured using the fair value principles of ASC 321 before settlement or exercise, and that an entity should not be considering how it will account for the resulting investments upon eventual settlement or exercise. ASU No. 2020-01 is to be applied prospectively, effective January 1, 2021, with early adoption permitted in an interim period. We are in the process of evaluating the impact of ASU 2020-01 on the consolidated financial statements.

In addition to those described above, the FASB has issued other accounting standards, none of which are expected to have a material impact on our consolidated financial statements when adopted.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. Our limited operating history makes it difficult to predict our future operating results. We believe that the period-to-period comparison of operating results should not be relied upon as being indicative of our future performance.

	For the Year Ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (unaudited)
(in thousands, except per share data)				
Revenues				
Commissions and fees, net	2,198,575	941,868	1,399,575	201,036
Trading gains, net	40,554	34,333	207,857	29,857
Interest and investment income	5,406	18,128	35,000	5,027
Other revenues	204,411	100,415	49,373	7,092
Total revenues	<u>2,448,946</u>	<u>1,094,744</u>	<u>1,691,805</u>	<u>243,012</u>
Expenses				
Commission expense	—	(2,012)	(576)	(83)
Employee compensation and benefits	(1,066,553)	(808,292)	(841,205)	(120,832)
Advertising and promotion	(424,865)	(223,265)	(339,755)	(48,803)
Information technology and communications	(41,170)	(32,421)	(33,119)	(4,757)
Occupancy and equipment rental	(123,680)	(115,810)	(98,956)	(14,214)
Taxes and surcharges	(21,080)	(6,455)	(5,893)	(846)
Intangible assets amortization	(56,547)	(56,515)	(28,053)	(4,030)
Impairment of goodwill and intangible assets	—	(639,000)	—	—
Other expenses	(78,509)	(83,334)	(85,755)	(12,318)
Total expenses	<u>(1,812,404)</u>	<u>(1,967,104)</u>	<u>(1,433,312)</u>	<u>(205,883)</u>
Income/(loss) before income taxes	<u>636,542</u>	<u>(872,360)</u>	<u>258,493</u>	<u>37,129</u>
Income tax expense	(169,556)	(1,028)	(127,925)	(18,375)
Net income/(loss)	<u>466,986</u>	<u>(873,388)</u>	<u>130,568</u>	<u>18,754</u>
Less: Net loss attributable to non-controlling interests	(13,678)	(10,350)	44,888	6,448
Net income/(loss) attributable to Yintech	<u>480,664</u>	<u>(863,038)</u>	<u>85,680</u>	<u>12,306</u>
Earnings/(loss) per share				
Basic	0.34	(0.60)	0.06	0.01
Diluted	0.33	(0.60)	0.06	0.01
Other comprehensive income/(loss)				
Unrealized gains/(Loss) on available-for-sale investments, net of tax	(800)	—	1,033	149
Foreign currency translation adjustment	(18,714)	22,538	2,348	338
Comprehensive income/(loss)	<u>447,472</u>	<u>(850,850)</u>	<u>133,949</u>	<u>19,241</u>
Comprehensive (loss)/gain attributable to non-controlling interests	(13,678)	(10,350)	45,165	6,488
Comprehensive income/(loss) attributable to Yintech	<u>461,150</u>	<u>(840,500)</u>	<u>88,784</u>	<u>12,753</u>

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018.

Revenues

Our revenues increased by 54.5% from RMB1,094.7 million in 2018 to RMB1,691.8 million (US\$243.0 million) in 2019, primarily due to an increase in our net commissions and fees and net trading gains.

Net Commissions and Fees

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
				(unaudited)
	(in thousands, except per share data)			
Commissions and fees, net				
Commodities services	2,177,871	604,375	881,367	126,600
Securities services	20,704	337,493	518,208	74,436
	<u>2,198,575</u>	<u>941,868</u>	<u>1,399,575</u>	<u>201,036</u>

Our net commissions and fees increased by 48.6% from RMB941.9 million in 2018 to RMB1,399.6 million (US\$201.0 million) in 2019, primarily due to the increase in fees earned from commodities services and securities services.

Net commissions and fees from commodities services in 2019 was RM881.4 million (US\$126.6 million), representing an increase of 45.8% from RMB604.4 million for the year of 2018. The increase was primarily due to the year-on-year increase of 54.0% in our customer trading volume from RMB1,730.7 billion in 2018 to RMB2,665.6 billion (US\$382.9 billion) in 2019 which was primarily due to a significant increase of our business on the Shanghai Gold Exchange.

On the other hand, we witnessed a substantial increase of 53.5% in net commissions and fees from securities services in 2019 as compared to 2018, primarily due to the growth of securities advisory and information platform business. The robust growth demonstrates the effectiveness of our strategy to expand its securities business and its ability to execute.

Net Trading Gains/Losses

Our net trading gains increased by 506.1% from RMB34.3 million in 2018 to RMB207.9 million (US\$29.9 million) in 2019. The increase was primarily due to increase in investment securities gains.

Interest and Investment Income

Our interest and investment income increased by 93.4% from RMB18.1 million in 2018 to RMB35.0 million (US\$5.0 million) in 2019, the majority of which was investment income from money markets funds. The increase was largely attributable to the improvement in cash management.

Other Revenues

Our other revenues decreased from RMB100.4 million in 2018 to RMB49.4 million (US\$7.1 million) in 2019, primarily due to the decrease in government grants and sales of application services.

Expenses

Our expenses decreased by 27.1% from RMB1,967.1 million in 2018 to RMB1,433.3 million (US\$205.9 million) in 2019, primarily due to (i) the recognition of impairment of goodwill and intangible assets of RMB639.0 million in 2018, (ii) increases in employee compensation and benefits as well as advertising and promotion expenses.

Employee Compensation and Benefits

Our employee compensation and benefits increased from RMB808.3 million in 2018 to RMB841.2 million (US\$120.8 million) in 2019, mainly due to an increase in performance bonus.

Advertising and Promotion

Our advertising and promotion expenses consist of advertising expenses and sales agent expenses. Our advertising expenses increased by 52.2% from RMB223.3 million in 2018 to RMB339.8 million (US\$48.8 million) in 2019, mainly due to the growth of our business.

Information Technology and Communications

Our information technology and communication expenses increased by 2.2% from RMB32.4 million in 2018 to RMB33.1 million (US\$4.8 million) in 2019.

Occupancy and Equipment Rental

Our occupancy and equipment rental expenses remains relatively stable which decreased from RMB115.8 million in 2018 and RMB99.0 million (US\$14.2 million) in 2019.

Taxes and Surcharges

Our taxes and surcharges decreased from RMB6.5 million in 2018 to RMB5.9 million (US\$0.8 million) in 2019, primarily due to a decrease in tax rate.

Other Expenses

Other expenses increased by 3.0% from RMB83.3 million in 2018 to RMB85.8 million (US\$12.3 million) in 2019.

Income Taxes

Our income tax expenses increased from RMB1.0 million in 2018 to RMB127.9 million (US\$18.4 million) in 2019, primarily due to (i) improvement in financial performance (ii) a deferred tax assets on deferred revenue from securities service and withholding tax on the expected earnings distribution.

Net Income /(loss)

As a result of the foregoing, we incurred a net income of RMB130.6 million (US\$18.8 million) in 2019 compared to net loss of RMB873.4 million in 2018.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues

Our revenues decreased by 55.3% from RMB2,448.9 million in 2017 to RMB1,094.7 million in 2018, primarily due to a decrease in our net commissions and fees.

Net Commissions and Fees

Our net commissions and fees decreased by 57.2% from RMB2,198.6 million in 2017 to RMB941.9 million in 2018, primarily due to the decrease in fees earned from commodities services and was partially offset by the increase in fees earned from securities services.

Net commissions and fees from commodities services in 2018 was RMB604.4 million representing a decrease of 72.2% from RMB2,177.9 million for the year of 2017. The decrease was primarily due to the year-on-year decrease of 54.9% in our customer trading volume from RMB3,841.1 billion in 2017 to RMB1,730.7 billion in 2018 which was primarily due to the termination of our business on the Tianjin Precious Metals Exchange and the Guangdong Precious Metals Exchange. Meanwhile, our average effective fee rate also decreased from 0.057% in 2017 to 0.035% in 2018. The decrease was mainly attributable to (i) a decrease in customer trading volume, which leads to a relatively lower fee rate from the SGE and futures companies.

On the other hand, we witnessed a substantial increase of 1530.1% in net commissions and fees from securities services in 2018 as compared to 2017, primarily due to the growth of securities advisory and information platform business. The robust growth demonstrates the effectiveness of our strategy to expand its securities business and its ability to execute.

Net Trading Gains/Losses

Our net trading gains decreased by 15.5% from RMB40.6 million in 2017 to RMB34.3 million in 2018. The decrease was primarily due to decrease in investment securities gains.

Interest and Investment Income

Our interest and investment income increased by 235.2% from RMB5.4 million in 2017 to RMB18.1 million in 2018, the majority of which was investment income from money markets funds. The increase was largely attributable to the improvement in cash management.

Other Revenues

Our other revenues decreased from RMB204.4 million in 2017 to RMB100.4 million in 2018, primarily due to (i) a gain from disposal of subsidiaries of RMB87.2 million in 2017, (ii) a decrease in government grants.

Expenses

Our expenses increased by 8.5% from RMB1,812.4 million in 2017 to RMB1,967.1 million in 2018, primarily due to the recognition of impairment of goodwill and intangible assets of RMB639.0 million partially offset by the decreases in employee compensation and benefits as well as advertising and promotion expenses.

Employee Compensation and Benefits

Our employee compensation and benefits decreased from RMB1,066.6 million in 2017 to RMB808.3 million in 2018, mainly due to a decrease in average headcount and performance bonus.

Advertising and Promotion

Our advertising and promotion expenses consist of advertising expenses and sales agent expenses. Our advertising expenses decreased by 47.4% from RMB424.9 million in 2017 to RMB223.3 million in 2018.

Information Technology and Communications

Our information technology and communication expenses decreased by 21.4% from RMB41.2 million in 2017 to RMB32.4 million in 2018.

Occupancy and Equipment Rental

Our occupancy and equipment rental expenses remains relatively stable which decreased from RMB123.7 million in 2017 and RMB115.8 million in 2018.

Taxes and Surcharges

Our taxes and surcharges decreased from RMB21.1 million in 2017 to RMB6.5 million in 2018, primarily due to a decrease in net commissions and fees.

Other Expenses

Other expenses increased by 6.1% from RMB78.5 million in 2017 to RMB83.3 million in 2018.

Income Taxes

Our income tax expenses decreased from RMB169.6 million in 2017 to RMB1.0 million in 2018, which was line with the financial performance.

Net Income /(loss)

As a result of the foregoing, we incurred a net loss of RMB873.4 million in 2018 compared to net income of RMB467.0 million in 2017.

B. LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity have been cash generated from our operations, capital injections by our shareholders and the proceeds from our initial public offering in April 2016. As of December 31, 2018 and 2019, we had RMB\$257.8 million and RMB209.5 million (US\$30.1 million) in cash and cash equivalents which consisted of cash on hand and cash deposited with banks. We also held investment securities that can be redeemed on demand of RMB1,479.1 million and RMB1,895.9 million (US\$272.3 million) as of December 31, 2018 and 2019. The investment securities we held are mainly wealth management products issued by banks and fund investments and trust investments managed by licensed asset management companies. We have been able to meet our working capital needs in the past, and we believe that we will be able to meet our working capital needs in the foreseeable future, with our internal financial resources and cash flow from our operations.

The following table sets forth a summary of our cash flows for the periods indicated.

	For the Years Ended December 31,			
	2017	2018	2019	(unaudited)
	RMB	RMB (in thousands)	RMB	US\$
Net cash provided by (used in) operating activities	668,472	(65,632)	199,478	28,653
Net cash used in investing activities	(996,106)	(292,591)	(218,104)	(31,328)
Net cash provided by (used in) financing activities	(372,677)	(151,692)	(13,725)	(1,971)
Net increase (decrease) in cash	(700,311)	(509,915)	(32,351)	(4,646)
Cash at beginning of year	1,541,241	840,930	331,015	47,547
Cash at end of year	840,930	331,015	298,664	42,901

Operating Activities

We had net cash of RMB199.5 million (US\$28.7 million) generated from operating activities in 2019, an increase primarily due to net income of RMB130.6 million (US\$18.8 million), as adjusted for non-cash items and the effect of changes in working capital including: (i) an increase in accrued employee benefits of RMB82.9 million (US\$11.9 million), (ii) an increase in income tax payable of RMB76.4 million (US\$11.0 million) due to our increase in profit before taxes and current income taxes expense, (iii) depreciation and amortization of RMB47.2 million (US\$6.8 million), (iv) non-cash deferred tax expense of RMB42.8 million (US\$6.1 million), and (v) an increase in other liabilities of RMB37.1 million (US\$5.3 million). These were partially offset by (i) adjustment for realized gain on investment securities of RMB207.9 million (US\$29.9 million), and (ii) an increase in other assets of RMB54.4 million (US\$7.8 million).

We had net cash of RMB65.6 million (US\$9.5 million) used in operating activities in 2018, a decrease primarily due to net loss of RMB873.4 million (US\$127.0 million), as adjusted for non-cash items and the effect of changes in working capital including: (i) non-cash impairment of goodwill and intangible assets of RMB639.0 million (US\$92.9 million), (ii) an increase in other liabilities of RMB119.6 million (US\$17.4 million) attributable to the increase in defer revenue arising from provision of securities advisory services, (iii) a decrease in other assets of RMB106.0 million (US\$15.4 million) due to decrease in prepayment for business acquisition and receivables related to AFS investment disposal, and (iv) depreciation and amortization of RMB78.2 million (US\$11.4 million). These were partially offset by (i) a decrease in accounts payable of RMB78.0 million (US\$11.3 million), and (ii) non-cash defer tax benefit of RMB61.8 million (US\$9.0 million).

We had a net cash generated from operating activities of RMB668.5 million in 2017, primarily attributable to our net income of RMB467.0 million, as adjusted for non-cash items and the effect of changes in working capital including: (i) a decrease in deposits with clearing organizations of RMB258.9 million, (ii) non-cash share-based compensation of RMB169.7 million, (iii) depreciation and amortization of RMB83.0 million, (iv) non-cash fair value change of RMB45.6 million, (v) a decrease in deferred tax assets of RMB35.2 million. These were partially offset by (i) gain from disposal of subsidiaries of RMB87.2 million, (ii) increase in other assets of RMB74.1 million due to increase in receivables resulting from disposals of subsidiaries and investment securities, (iii) decrease in accounts payable of RMB78.4 million, (iv) decrease in other liabilities of RMB67.1 million resulting from decrease in taxes payable and customer rebates payable, (v) decrease in income tax payable of RMB42.4 million and (vi) adjustment for realized gain on investment securities of RMB38.4 million.

Investing Activities

We had net cash used in investing activities of RMB218.1 million (US\$31.3 million) in 2019, primarily attributable to purchase of investment securities of RMB5,350.9 million (US\$768.6 million), which was partially offset by cash received from sale of short-term investments of RMB5,141.5 million (US\$738.5 million).

We had net cash used in investing activities of RMB292.6 million (US\$42.5 million) in 2018, primarily attributable to (i) payment for acquisition of subsidiaries offsetting cash acquired in the amount of RMB11.4 million (US\$1.7 million), (ii) purchase of investment securities of RMB16,129.9 million (US\$2,346.0 million), which was partially offset by cash received from sale of investment securities of RMB15,883.2 million (US\$2,310.1 million).

We had net cash used in investing activities of RMB996.1 million in 2017, primarily attributable to (i) payment for acquisition of subsidiaries acquired in the amount of RMB39.6 million, (ii) purchase of investment securities of RMB16,155.3 million, which was partially offset by cash received from sale of investment securities of RMB15,059.0 million, (iii) cash received from disposal of subsidiaries of RMB92.0 million.

Financing Activities

We had net cash used in financing activities of RMB13.7 million (US\$2.0 million) in 2019, primarily attributable to purchase of treasury stock of RMB18.6 million (US\$2.7 million), which was partially offset by proceeds from exercise of options of RMB4.9 million (US\$0.7 million).

We had net cash used in financing activities of RMB151.7 million (US\$22.1 million) in 2018, primarily attributable to (i) payment of dividend of RMB177.5 million (US\$25.8 million), (ii) purchase of treasury stock of RMB74.2 million (US\$10.8 million), which was partially offset by proceeds from non-controlling shareholders of RMB95.6 million (US\$13.9 million).

We had net cash used in financing activities of RMB372.7 million in 2017, primarily attributable to (i) payment of dividend of RMB385.1 million, (ii) purchase of treasury stock of RMB37.0 million, which was partially offset by proceeds from exercise of stock options of RMB49.4 million.

Capital Expenditures

Our capital expenditures consist primarily of expenditures for the purchase of fixed assets and intangible assets. Our capital expenditures amounted to RMB31.9 million, RMB10.0 million and RMB9.5 million (US\$1.4 million) in 2017, 2018 and 2019, respectively, primarily due to purchases of electronic and office equipment and leasehold improvements for our office space as a result of our business growth. Our actual future capital expenditures may differ from the amounts as indicated above. We expect cash generated from our operating activities and financing activities will meet our capital expenditure needs in the foreseeable future.

Holding Company Structure

We are a holding company with no material operations of our own. We conduct our operations through our subsidiaries in China. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by our subsidiaries. Our PRC subsidiaries may purchase foreign exchange from relevant banks and make distributions to offshore companies after completing relevant foreign exchange registration with the SAFE. Our offshore companies may inject capital into or provide loans to our PRC subsidiaries through capital contributions or foreign debts, subject to applicable PRC regulations. If our subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our subsidiaries are permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. As of December 31, 2019, our PRC subsidiaries had an aggregate retained earnings of RMB738.4 million (US\$106.1 million) under PRC GAAP. Under PRC law, each of our affiliates in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reached 50% of its registered capital, after which any mandatory appropriation stops. Our PRC subsidiaries had an aggregate statutory reserves in the amount of RMB196.2 million (US\$28.2 million) as of December 31, 2019. As of December 31, 2019, Gold Master Network, Qian Du, Qian Qi, Qian Jing, Min Qing, Chun Xin, Yintech Investment, Yin Sai have reached such maximum reserve amount and therefore stopped appropriation, while other PRC entities have not yet reached their respective maximum reserve amount. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation of the companies. At the discretion of our PRC subsidiaries, they may allocate a portion of their after-tax profits to discretionary funds for staff welfare and bonus. Such discretionary funds, similar to statutory reserves, are not distributable as cash dividends.

C. RESEARCH AND DEVELOPMENT

The client software and the CRM system are our core technology infrastructure and enable us to move each key phase of our business operation online. Through client software, we provide customers with timely and comprehensive market information, investor education programs, simulated trading, research reports, live market commentary, quantitative analysis tools and interactive customer support functions. Our CRM system is the core IT system for customer development and customer services. Our CRM system allows for central management of both current and potential customer relationships, monitoring and supervising customer communications as well as collecting and analyzing customer data.

We established Yintech Financial Innovation Labs in Shanghai and Boston in the year 2016, focusing on big data, artificial intelligence and trading strategies. The goal is to provide our customers with more advanced trading strategies, more reliable risk management toolkits and better intelligent services.

As of December 31, 2019, we had a software research and development and maintenance team of 482 employees. We also have a professional research team at our in-house research institute through which we provide research support services to our customers. Our research staff members possess various professional qualifications in securities, futures and commodity trading. Our research services include research reports, online lectures, live market commentaries and quantitative analysis. Our research reports include daily, monthly and special event reports. Our research personnel give live market commentary during trading hours, which can be accessed via PC and APP versions of our client software in text or video format. Our research team also develops various quantitative analysis models that can be used by our customers through our client software.

D. TREND INFORMATION

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2019 that are reasonably likely to have a material effect on our revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

F. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The components of lease cost for the year ended December 31, 2019 include:

	Year ended December 31,	
	2019	2019
	RMB	(Note2)USD Unaudited
Operating lease cost	48,834	7,015
Short-term lease cost	14,795	2,125
Total lease cost	63,629	9,140

Other information related to leases as of December 31, 2019 includes:

Supplemental cash flow information

Lease Term and Discount Rate	December 31, 2019
Weighted average remaining lease term	1.56 years
Weighted average discount rate	4.67%

*Amounts disclosed for ROU assets obtained in exchange for lease obligations include amounts added to the carrying amount of ROU assets resulting from lease modifications and reassessments.

Maturities of lease liabilities under non-cancellable leases as of December 31, 2019 are as follows:

Year ending December 31	RMB
2020	24,124
2021	4,343
2022	1,217
2023	1,217
2024 and thereafter	1,217
Total undiscounted lease payments	32,118
Less: imputed interest	(1,272)
Total lease liabilities	30,846

Total rental expenses for all operating leases were RMB78.0 million, RMB67.9 million and RMB63.6 million (US\$9.1 million) for the years ended December 31, 2017, 2018 and 2019, respectively. We did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2019.

G. SAFE HARBOR

See "Forward-looking Statements" on page 3 of this annual report.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information relating to our directors and executive officers as of December 31, 2019.

Directors and Executive Officers	Age	Position/Title
Wenbin Chen	46	Co-Founder, Chairman, Chief Executive Officer and Director
Ming Yan	46	Co-Founder and Director
Ningfeng Chen	52	Co-Founder and Director
Feng Li	44	Independent Director
Jue Yao	47	Independent Director
Lijun Lin	48	Independent Director
Yonghong Fan	53	Independent Director
Pingsen Chen	38	Vice President
Jigeng Chen	38	Vice President
Xin Zhou Tang	42	Vice President
Dikuo Bo	46	Vice President
Di Qian	38	Chief Financial Officer

Mr. Wenbin Chen is our Founder, Chairman and Chief Executive Officer. Mr. Chen has 19 years of experience in the finance industry. He worked at Fuzhou Tianli Investment Consulting Co., Ltd. from July 1998 to July 2005, with his last position being deputy general manager. Mr. Chen founded Fujian Rulin Information Technology Development Co., Ltd. in July 2005 and served as its general manager until June 2007. Between August 2007 and June 2010, Mr. Chen was Assistant to the Chief Executive Officer of Caifu Software (Beijing) Co., Ltd. Mr. Chen graduated from Dalian University of Technology with a double bachelor's degree in chemical engineering and international enterprise management in July 1998. He graduated in October 2009 from Cheung Kong Graduate School of Business with an EMBA degree.

Mr. Ming Yan is our Founder and Director. Mr. Yan has founded a number of entertainment, culture and catering businesses in Beijing, Shanghai and Hong Kong. Mr. Yan graduated from Shanxi University of Finance with a bachelor's degree in Finance in December 2011. He graduated in September 2014 from the Cheung Kong Graduate School of Business with an EMBA degree. Mr. Yan has been enrolled in the Doctor of Business Administration program at Shanghai Jiao Tong University since September 2013.

Ms. Ningfeng Chen is our Founder and Director. From September 1990 to September 2001, Ms. Chen worked as an engineer at Fuzhou Office of Earthquake Resistance and Fuzhou Urban and Rural Construction Committee. Between September 2001 and September 2003, Ms. Chen served as the chief engineer at Fuzhou Anxinda Engineering Consulting Co., Ltd. She was a North American market research consultant at Shanghai Naide Enterprise Management Consulting between September 2005 and February 2011. Ms. Chen graduated from Anhui Institute of Architecture & Industry with a bachelor's degree in industrial and civil construction in July 1990. In June 2003, Ms. Chen graduated from the University of International Business and Economics with a master's degree in management. Ms. Chen also received a certificate of completion in financial analysis and investment management from the University of Toronto in May 2005.

Mr. Feng Li is an Independent Director. Mr. Li has approximately 19 years of experience in business management and financial education. At the University of Michigan Stephen M. Ross School of Business, he was the Ernst & Young Assistant Professor from July 2004 to July 2011 and the Harry Jones Associate Professor with tenure from July 2011 to June 2015. Since July 2015, Mr. Li has been a professor of accounting and director of the Finance MBA Program at Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University. Since July 17, 2014, Mr. Li has also been an independent director and the audit committee financial expert for Sungy Mobile Limited, a company listed on the NASDAQ (NASDAQ: GOMO). Mr. Li is a member of the American Accounting Association. Mr. Li graduated from Fudan University with a bachelor's degree in economics in July 1996 and a master degree in economics in July 1998. He received his master degree in business administration from the University of Chicago in June 2004 and obtained a doctor of philosophy degree in accounting from the University of Chicago in June 2005.

Ms. Jue Yao is an Independent Director. Ms. Yao has extensive experience in accounting and corporate finance. Ms. Yao was the chief financial officer of Qihoo 360 Technology Co., Ltd., or Qihoo 360, a company formerly listed on the New York Stock Exchange (NYSE: QIHU) and currently listed on the Shanghai Stock Exchange (SSE: 601360) from 2014 to April 2018. From 1996 to 1999, Ms. Yao was a senior auditor at KPMG. From 1999 to 2006, Ms. Yao held various positions, including financial director, at Sohu.com Inc. Since 2006, Ms. Yao has held various positions at Qihoo 360, including as its financial director and vice president of finance from 2008 to 2012 and its co-chief financial officer of Qihoo 360 from 2012 to 2014. Ms. Yao graduated from the University of International Business and Economics in China with a bachelor's degree in international accounting in June 1996.

Mr. Lijun Lin is an Independent Director. Mr. Lin is the founder and currently serves as CIO of Loyal Valley Innovation Capital, an investment company focusing on investing in entrepreneurship and innovation, founded in November 2015. Prior to that, Mr. Lin founded China Universal Asset Management Co., Ltd., or CUAM, in 2005, a leading fund management company in China with USD70 billion under management. He served as CUAM's chief executive officer and chairman of the investment committee from April 2004 to April 2015. Mr. Lin previously also served as a manager and an assistant director of the listing department of the Shanghai Stock Exchange and served at the CSRC as a regulator. Mr. Lin obtained a bachelor's and a master's degree in economics from Fudan University and a Master of Business Administration degree from Harvard Business School.

Mr. Yonghong Fan is an Independent Director. Mr. Fan has been an Independent Director since May 2018. Mr. Fan is currently the Co-Chairman of Xiangshan Wealth Institution, a non-profit think tank focused on wealth management research. Mr. Fan has over 31 years of experience in finance and investment industries, including managerial positions in commercial banks, securities firms and fund management. Mr. Fan received his doctorate degree in economics from the Chinese Academy of Fiscal Sciences in 1998.

Mr. Pingsen Chen is our Vice President. Mr. Chen worked at Guangdong Dafu Investment Management Co., Ltd. and Jiangsu Tianding investment management Co., Ltd. from 2006 to 2009. Before co-founding Gold Master, Mr. Chen served as manager of Fuzhou Ruixin Investment Management Co., Ltd. during 2011 to 2012. Mr. Chen served as general manager when we acquired Gold Master in August 2016. Mr. Chen was appointed as our Vice President in April 2017. Mr. Chen graduated from Fujian Commercial College in July 2005. He also studied Finance at Xiamen University during March 2013 to July 2015.

Mr. Jigeng Chen is our Vice President. He has over 15 years of experience in the financial services industry. Mr. Chen was an investment consultant at Fujian Rulin Investment Management Development Co., Ltd. from April 2004 to December 2007. He worked at a number of companies providing securities software and related services from January 2008 to May 2011, before joining us. Mr. Chen graduated from Xiangling High School in July 1999.

Mr. Xinzhou Tang is our Vice President. He has over 15 years of experience in the financial industry. Before joining Yintech, Mr. Tang was the deputy general manager at Hangzhou TOPCJ Financial Investment Consulting Co., Ltd. from August 2011 to March 2012. He served as general manager at the Xiamen subsidiary company of TX Investment Consulting Co., Ltd. during March 2012 to March 2013. In addition, Mr. Tang held a number of management positions in various companies in the financial sector from 2003 to 2011.

Mr. Dikuo Bo is our Vice President. Mr. Bo was a manager at Tianli Jicang Cultural Communication Co., Ltd., a company specializing in the sales and investment of collectible cultural products, from May 2000 to July 2004. Mr. Bo co-founded Shanghai Tongguan Information Technology, a company providing financial information and services, in October 2007 and served as its general manager until March 2014, before joining us. Mr. Bo graduated from Dalian University of Technology in July 1997 with a bachelor's degree in chemical equipment and machinery. He studied in the postgraduate program in finance in Shanghai University of Finance and Economics from September 2003 to July 2005. Mr. Bo obtained an EMBA degree from Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University in December 2017.

Mr. Di Qian is our Chief Financial Officer. He has more than 10 years of accounting and financial management experiences focusing on financial reporting, regulatory compliance, internal control, investor communications and corporate finance. Before joining Yintech, Mr. Qian was Vice President and financial controller of Shanghai Dasheng Agricultural Finance, a Hong Kong-listed company since August 2014. He also worked as an audit manager in KPMG Shanghai from August 2006 to August 2014, overseeing the annual audits of public companies and auditor requirements in various industries and companies. Prior to that, Mr. Qian served as the financial analyst in Shanghai Pudong Development Bank. Mr. Qian holds a Bachelor's degree in Business Administration from Fudan University in China and is a Chartered Professional Accountant in both China and Hong Kong.

B. COMPENSATION

For the fiscal year ended December 31, 2019, the aggregate cash compensation paid to our directors and executive officers was approximately RMB10.8 million (US\$1.55 million). No pension, retirement or similar benefits have been set aside or accrued for our executive officers or directors. We have no service contracts with any of our non-executive directors providing for benefits upon termination of employment. Our PRC subsidiaries are required by PRC laws and regulations to make contributions equal to certain percentages of each employee's salary for his or her retirement benefit, medical insurance benefits, housing funds, unemployment and other statutory benefits.

Employment Agreements

We have entered into employment agreements with our executive officers. Under these agreements, each of our executive officers is employed for a term of three years. We may terminate the employment for cause, at any time, without notice or remuneration, for certain acts of the executive officer. An executive officer may terminate his or her employment at any time with not less than one-month prior written notice.

Each executive officer has agreed to hold, both during and after the employment agreement expires or is earlier terminated, in strict confidence and not to use or disclose to any person, corporation or other entity without written consent, any confidential information. Each executive officer has also agreed to assign to our company any intellectual property rights that qualifies or is considered by us to qualify for patent, copyright, trademark, trade secrets, or any other protection under the laws of PRC or Cayman Islands providing or creating intellectual property rights, during the period of the executive officer's employment with us and for a certain period following termination of the employment agreement that are related to the scope of the employment.

In addition, all executive officers have agreed to be bound by non-competition and non-solicitation restrictions set forth in their employment agreements. Specifically, each executive officer has agreed to devote all his or her working time and attention to our business and use best efforts to develop our business and interests. Moreover, each executive officer has agreed not to, for a certain period following termination of his or her employment or expiration of the employment agreement: (i) directly or indirectly engage in (whether as an officer, principal, agent, director, employee, partner, affiliate, consultant or other participant), or hold an equity interest of 5% or more in, any business or activity that is in competition with us, its subsidiaries or affiliated entities; (ii) solicit, encourage or assist other employees of us to seek employment with any business or organization in competition with us, its subsidiaries or affiliated entities; or (iii) engage in other activities that may cause conflicts with the interests of us during the term of the employment agreement.

Share Incentive Plans

Win Yin Financial granted stock options and restricted share units on its shares to our employees pursuant to its 2013 Share Option Scheme, 2014 Share Option Scheme and Pre-IPO RSU Scheme, or the Share Incentive Plans. Pursuant to the group reorganization completed on November 18, 2015, our company became the holding company of the group and the majority of the operating PRC subsidiaries under Win Yin Financial became our wholly-owned PRC subsidiaries. In connection with the reorganization, we assumed the Share Incentive Plans from Win Yin Financial and adopted the Amended and Restated 2013 Share Option Scheme, Amended and Restated 2014 Share Option Scheme and Amended and Restated Pre-IPO RSU Scheme. We have further amended and restated these share incentive plans to enlarge the authorized amount of options and RSUs by adopting the Second Amended and Restated 2013 Share Option Scheme, the Fourth Amended and Restated 2014 Share Option Scheme and the Third Amended and Restated Pre-IPO RSU Scheme. We issued stock options and RSUs to our employees to replace the stock options and RSUs issued by Win Yin Financial. The terms and conditions of the stock options and RSUs with respect to vesting and exercisability remain the same.

The purpose of the Share Incentive Plans is to enhance our ability to attract and retain highly qualified officers, directors, key employees and other persons, and to motivate such persons to serve us and our affiliates and to expend maximum effort to improve our business results and earnings, by providing such persons an opportunity to acquire or increase a direct interest in our operations and future success.

Second Amended and Restated 2013 Share Option Scheme

The maximum aggregate number of ordinary shares that can be issued under the Second Amended and Restated 2013 Share Option Scheme, or the 2013 Share Option Scheme, is 41,000,000. As of March 31, 2020, options to purchase an aggregate of 9,007,160 ordinary shares have been granted by us and remain outstanding under the 2013 Share Option Scheme.

Eligible participants. Our employees, officers, directors, business associates or any other individual as determined by our board of directors, in its sole discretion, has contributed or will contribute to our company, are eligible to participate in the 2013 Share Option Scheme.

Exercise price. The exercise price in respect of options granted under the scheme before our initial public offering is US\$0.163 per share, subject to any adjustment as a result of any alteration in the capital structure of our company by way of capitalization of profits or reserves, rights issue, sub-division or consolidation of shares or reduction of share capital of our company from time to time, but excluding, for the avoidance of doubt, any alteration in the capital structure of our company as a result of an issue of shares or other securities as consideration in a transaction to which our company is a party.

Vesting schedule. The administrator of the 2013 Share Option Scheme has the sole discretion in determining the individual vesting schedules and other restrictions applicable to shares awarded and opinions granted under such scheme.

Administration. The plan is administered by our board of directors.

Lapse of options. An option issued under the scheme shall lapse automatically under certain circumstances, including, but not limited to, the expiration of option period, termination of employment for cause and the tenth anniversary of the adoption date of the scheme.

Amendment. Any change to the authority of our board of directors in relation to any alteration to the terms of the scheme must be approved by the shareholders in general meeting. Subject to the above, our board of directors may amend any of the provisions of the scheme at any time provided that such amendment shall not affect adversely any rights which have accrued to any grantee at that date.

Termination. The scheme will terminate on the tenth anniversary of its date of adoption, unless terminated earlier. We may, by ordinary resolution in general meeting, or our board of directors may, at any time terminate the operation of the scheme and in such event no further options shall be granted. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the scheme.

Transfer restrictions. An option is personal to the grantee and shall not be assignable or transferable.

Fourth Amended and Restated 2014 Share Option Scheme

The following is a summary of the principal terms of the Fourth Amended and Restated 2014 Share Option Scheme, or the Revised 2014 Share Option Scheme. The maximum aggregate number of ordinary shares that can be issued under the Scheme is 200,000,000. As of March 31, 2020, options to purchase an aggregate of 50,814,740 ordinary shares have been granted by us and remain outstanding under the Revised 2014 Share Option Scheme.

Eligible participants. Our employees, officers, directors, business associates or any other individual as determined by our board of directors, in its sole discretion, has contributed or will contribute to our company, are eligible to participate in the Revised 2014 Share Option Scheme.

Exercise price. The exercise price in respect of options granted under the scheme before our initial public offering is US\$0.163 per share subject to any adjustment as a result of any alteration in the capital structure of our company by way of capitalization of profits or reserves, rights issue, sub-division or consolidation of shares or reduction of share capital of our company from time to time, but excluding, for the avoidance of doubt, any alteration in the capital structure of our company as a result of an issue of shares or other securities as consideration in a transaction to which our company is a party; the exercise price in respect of all outstanding options granted on April 27, 2016 is US\$0.500 per share; and the exercise price in respect of any options to be granted in the future shall be further determined by the board of directors of the Company.

Vesting schedule. The administrator of the Revised 2014 Share Option Scheme has the sole discretion in determining the individual vesting schedules and other restrictions applicable to shares awarded and opinions granted under such scheme.

Administration. The plan is administered by our board of directors.

Lapse of options. An option issued under the scheme shall lapse automatically under certain circumstances, including but not limited to, the expiration of option period, termination of employment for cause and the tenth anniversary of the adoption date of the scheme.

Amendment. Any change to the authority of our board of directors in relation to any alteration to the terms of the scheme must be approved by the shareholders in general meeting. Subject to the above, our board may amend any of the provisions of the scheme at any time provided that such amendment shall not affect adversely any rights which have accrued to any grantee at that date.

Termination. The scheme will terminate on the tenth anniversary of its date of adoption, unless terminated earlier. We may, by ordinary resolution in general meeting, or our board of directors may, at any time terminate the operation of the scheme and in such event no further options shall be granted. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the scheme.

Transfer restrictions. An option is personal to the grantee and shall not be assignable or transferable.

Third Amended and Restated Pre-IPO RSU Scheme

The following is a summary of the principal terms of the Third Amended and Restated Pre-IPO RSU Scheme or Pre-IPO RSU Scheme. The shares in aggregate underlying all awards under the Pre-IPO RSU Scheme shall not exceed 100,000,000. As of March 31, 2020, RSUs granted by us and remain outstanding underlying an aggregate number of 1,455,820 ordinary shares.

Eligible participants. Our employees, officers, directors, business associates or any other individuals as determined by our board of directors, in its sole discretion, has contributed or will contribute to our company, is eligible to participate in the Pre-IPO RSU Scheme.

Vesting schedule. The administrator of the Pre-IPO RSU Scheme has sole discretion in determining the individual vesting schedules and other restrictions applicable to shares awarded under such scheme.

Administration. The plan is administered by our board of directors. The board of directors may delegate the authority to administer the Scheme to one or more directors.

Lapse of options. An unvested award issued under the scheme shall lapse automatically under certain circumstances, including but not limited to, termination of employment and the winding-up our company.

Amendment. The terms of the scheme may be altered, amended or waived in any respect by our board of directors provided that such alteration, amendment or waiver shall not affect any subsisting rights of any grantee. Any alteration, amendment or waiver to the scheme of a material nature shall be approved by the shareholders of our company. The board shall have the right to determine whether any proposed alteration, amendment or waiver is material and such determination shall be conclusive.

Termination. The scheme will terminate on the tenth anniversary of its date of adoption, unless terminated earlier. The scheme may be terminated or our board of directors may at any time terminate prior to the expiry of the scheme period provided that such termination shall not affect any subsisting rights of any grantee and in such event no further awards shall be granted. Awards granted prior to such termination but not yet exercised at the time of termination shall continue to be valid in accordance with the scheme.

Transfer restrictions. A RSU under the scheme is personal to the grantee and shall not be assignable or transferable.

The following table summarizes, as of March 31, 2020, options and RSUs that we granted to our executive officers and to other individuals as a group and remain outstanding under our 2013 Share Option Scheme, 2014 Share Option Scheme and Pre-IPO RSU Scheme.

Name	Ordinary Shares Underlying Outstanding Options / RSUs Granted	Exercise Price(US\$ per Share)	Date of Grant(4)	Date of Expiration
Wenbin Chen	*(2)	0.163	December 15, 2014	October 26, 2021/2022/2023
	*(2)	0.500	April 27, 2016	April 26, 2022/2023/2024
Pingsen Chen	*(2)	0.500	April 27, 2016	April 26, 2022/2023/2024
Jigeng Chen	*(1)	0.163	December 3, 2013	February 29, 2020
	*(2)	0.163	December 15, 2014	October 26, 2021/2022/2023
	*(2)	0.500	April 27, 2016	April 26, 2022/2023/2024
Dikuo Bo	*(2)	0.163	December 15, 2014	October 26, 2021/2022/2023
	*(2)	0.500	April 27, 2016	April 26, 2022/2023/2024
Other individuals as a group	7,853,160(1)	0.163	December 3, 2013	February 29, 2020
	5,558,100(2)	0.163	December 15, 2014	October 26, 2021/2022/2023
	2,157,280(2)	0.163	January 13, 2016	December 31, 2021/2022/2023
	18,486,480(2)	0.500	April 27, 2016	April 26, 2022/2023/2024
	17,500(3)	—	June 29, 2017	—
	7,580,000(2)	0.500	September 6, 2017	April 26, 2023/2024/December 31, 2024
	215,720(3)	—	August 8, 2018	—
	156,040(3)	—	January 1, 2019	—
	1,066,560(3)	—	June 17, 2019	—
Total	61,277,720			

* The options, RSUs and other rights to acquire ordinary shares in aggregate held by each of these directors and executive officers and their affiliates represent less than 1% of our total outstanding shares.

(1) Represents rights under the 2013 Share Option Scheme.

(2) Represents rights under the 2014 Share Option Scheme.

(3) Represents rights under the Pre-IPO RSU Scheme.

(4) Date of grant represents the original grant date of the options and RSUs held by the respective director or executive officer and other individuals. No outstanding options or RSUs described in this table are held by a U.S. resident.

C. BOARD PRACTICES

Board of Directors

Our board of directors currently consists of seven directors. A director is not required to hold any shares in our company to qualify to serve as a director. A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with our Company is required to declare the nature of his or her interest at a meeting of our directors. A general notice given to the directors by any director to the effect that he or she is to be regarded as interested in any contract or other arrangement which may thereafter be made with that company or firm shall be deemed a sufficient declaration of interest in regard to any contract so made. A director may vote in respect of any contract or proposed contract or arrangement notwithstanding that he or she may be interested therein and if he or she does so his/her vote shall be counted and he may be counted in the quorum at any meeting of the directors at which any such contract or proposed contract or arrangement is considered. Our board of directors may exercise all of the powers of our Company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock or other securities whenever money is borrowed or as security for any debt, liability or obligation of our Company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

Committees of the Board of Directors

We have established three committees under the board of directors, namely the audit committee, the compensation committee and the nominating and corporate governance committee. Each committee's members and functions are described below. We have adopted a charter for each of the board committees.

Audit Committee

Our audit committee consists of four directors, namely Mr. Feng Li, Mr. Lijun Lin, Mr. Yonghong Fan and Ms. Jue Yao and is chaired by Mr. Feng Li. All four directors on our audit committee satisfy the "independence" requirements of the Nasdaq Stock Market Rules and the SEC. We have determined that Mr. Feng Li qualifies as an "audit committee financial expert." The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our Company. The audit committee is responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- setting clear hiring policies for employees or former employees of the independent auditors;

- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- reviewing and approving all related-party transactions;
- discussing the annual audited financial statements with management and the independent auditors;
- discussing with management and the independent auditors major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;
- reviewing with management and the independent auditors related-party transactions and off-balance sheet transactions and structures;
- reviewing with management and the independent auditors the effect of regulatory and accounting initiatives;
- reviewing policies with respect to risk assessment and risk management;
- reviewing our disclosure controls and procedures and internal control over financial reporting;
- reviewing reports from the independent auditors regarding all critical accounting policies and practices to be used by our company;
- establishing procedures for the receipt, retention and treatment of complaints we received regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- periodically reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time; and
- meeting separately, periodically, with management, the internal auditors and the independent auditors.

Compensation Committee

Our compensation committee consists of Ms. Ningfeng Chen, Mr. Lijun Lin and Mr. Feng Li and is chaired by Ms. Ningfeng Chen. Mr. Lijun Lin and Mr. Feng Li satisfy the “independence” requirements of the Nasdaq Stock Market Rules. Our compensation committee assists the board in reviewing and approving the compensation structure of our executive officers, including all forms of compensation to be provided to our executive officers. The compensation committee is responsible for, among other things:

- reviewing and approving the compensation for our senior executives;
- reviewing and evaluating our executive compensation and benefits policies generally;
- reporting to our board of directors periodically;
- evaluating its own performance and reporting to our board of directors on such evaluation;
- periodically reviewing and assessing the adequacy of the compensation committee charter and recommending any proposed changes to our board of directors; and
- such other matters that are specifically delegated to the compensation committee by our board of directors from time to time.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Mr. Wenbin Chen, Mr. Feng Li and Ms. Jue Yao and is chaired by Mr. Wenbin Chen. Mr. Feng Li and Ms. Jue Yao satisfy the “independence” requirements of the Nasdaq Stock Market Rules. The nominating and corporate governance committee assists the board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- identifying and recommending to the board of directors qualified individuals for membership on the board of directors and its committees;
- reviewing annually with our board of directors its current composition in light of the characteristics of independence, age, skills, experience and availability of service to us;
- overseeing compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance; and
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to our board of directors on all matters of corporate governance and on any corrective action to be taken.

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also owe to our company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and re-stated from time to time. Our company has the right to seek damages if a duty owed by our directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders’ annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares of our company, including the registering of such shares in our share register.

Terms of Directors and Officers

Our officers are elected by and serve at the discretion of our board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office with or without cause by a board resolution passed by a majority of not less than one-half of the directors or by an ordinary resolution of our shareholders. A director will be removed from office automatically if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found by our company to be or becomes of unsound mind; (iii) resigns his office by notice in writing to the company; (iv) is removed from office by ordinary resolution or (v) is removed from office pursuant to any other provision of the articles of association.

D. EMPLOYEES

As of December 31, 2019, we had a total of 2,975 employees, who were all full-time employees. The following table sets forth certain information about our employees by function as of December 31, 2019.

	Number of Employees	% of Total Employees
Technology	482	16.2%
Research	72	2.4%
Customer Service	459	15.4%
Sales & Marketing	1,552	52.2%
General & Administration	410	13.8%
Total	2,975	100%

We enter into individual employment contracts with our employees to cover matters such as salaries, benefits and grounds for termination. Each employee's employment contract also covers non-competition and confidentiality arrangements during such employee's employment with us. For information as to employment agreements with our executive officers, see "Item 6. Directors, Senior Management and Employees—B. Compensation—Employment Agreements." We generally formulate our employees' remuneration package to include salary, benefits and share-based compensation. We provide our employees with welfare benefits in accordance with applicable regulations and our internal policies. We also provide trainings for our employees with respect to business, compliance and internal management. Such trainings may be provided by internal departments or external trainers. We review the content of our trainings regularly to ensure that the trainings we provide to our employees are sufficient and up to date.

We are required under PRC laws and regulations to make contributions to our employees' social insurance and housing fund based on specified percentages of the salaries, bonuses, and certain allowances of our employees. Our employees are not covered by any collective bargaining agreement. We believe that we have a good relationship with our employees. The vast majority of our employees are based in China.

E. SHARE OWNERSHIP

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 31, 2020:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our ordinary shares.

The calculations in the shareholder table below assume that there are 1,460,831,635 ordinary shares outstanding as of March 31, 2020.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC and includes voting or investment power with respect to the ordinary shares. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days of the date of this annual report, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Ordinary Shares Beneficially Owned as of March 31, 2020	
	Number	Percentage
Directors and Executive Officers:		
Wenbin Chen ⁽¹⁾	405,166,740	27.74%
Ming Yan ⁽¹⁾	300,000,000	20.54%
Ningfeng Chen ⁽¹⁾	300,000,000	20.54%
Pingsen Chen	*	*
Jigeng Chen	25,499,420	1.75%
Dikuo Bo	*	*
All directors and executive officers as a group	1,043,837,460	71.46%
Principal Shareholders:		
Coreworth Investments Limited ⁽²⁾	400,000,000	27.38%
Harmony Creek Investments Limited ⁽³⁾	300,000,000	20.54%
Rich Horizon Investments Limited ⁽⁴⁾	300,000,000	20.54%
Panhou Value Growth Fund SPC ⁽⁵⁾	97,043,940	6.64%

* Less than 1% of our total outstanding shares.

- (1) Mr. Wenbin Chen is the sole shareholder of Coreworth Investments Limited, or Coreworth, and is deemed to be interested in 400,000,000 Shares held by Coreworth. The business address of Mr. Chen is 3rd Floor, Lujiazui Investment Tower, No.360 Pudian Road, Pudong New Area, Shanghai 200122, People's Republic of China. Mr. Ming Yan is the sole shareholder of Harmony Creek Investments Limited, or Harmony Creek, and is deemed to be interested in 300,000,000 shares held by Harmony Creek. The business address of Mr. Yan is 3rd Floor, Lujiazui Investment Tower, No.360 Pudian Road, Pudong New Area, Shanghai 200122, People's Republic of China. Ms. Ningfeng Chen is the sole shareholder of Rich Horizon Investments Limited, or Rich Horizon, and is deemed to be interested in 300,000,000 shares held by Rich Horizon. The business address of Ms. Chen is 3rd Floor, Lujiazui Investment Tower, No.360 Pudian Road, Pudong New Area, Shanghai 200122, People's Republic of China.
- (2) Coreworth is a company incorporated under the laws of BVI and wholly-owned by Mr. Wenbin Chen. Its registered address is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (3) Harmony Creek is a company incorporated under the laws of BVI and wholly-owned by Mr. Ming Yan. Its registered address is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (4) Rich Horizon is a company incorporated under the laws of BVI and wholly-owned by Ms. Chen. Its registered address is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (5) Panhou Value Growth Fund SPC is a segregated portfolio company incorporated under the laws of Cayman Islands. Among 97,043,940 ordinary shares beneficially owned by it, 95,081,680 ordinary shares were held by Asia Growth SP, a segregated portfolio of Panhou Value Growth Fund SPC and 1,962,260 ordinary shares were, on an as converted basis, held by the Global Growth SP, a segregated portfolio of Panhou Value Growth Fund SPC in the form of 98,113 ADS. Each share of ADS held by the Global Growth SP represents twenty (20) ordinary shares. Its registered address is Room 6111-12, 61th Floor, The Center, 99 Queen's Road, Central Hong Kong.

As of March 31, 2020, 329,026,100 of our ordinary shares outstanding were held by one record holder in the United States, which is the depository of our ADS program, representing 22.52% of our total issued and outstanding ordinary shares as of such date. None of our existing shareholders has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

PLEASE REFER TO "ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES—E. SHARE OWNERSHIP."

B. RELATED PARTY TRANSACTIONS

Transactions with Shareholders and Related Parties

(1) Acquisition of Forthright Group

On December 29, 2017, we acquired 100% of the shares of the Forthright Group with a total consideration of approximately RMB 12.81 million. The Forthright Group was previously wholly owned by one of the Company's Founding Shareholders. Upon completion of this acquisition, RMB 16.56 million was recognized as goodwill accordingly.

(2) Acquisition of Forthright International

On December 29, 2017, we acquired 100% of the shares of the Forthright International with a total consideration of approximately RMB 2.12 million. Forthright International was previously wholly owned by Win Yin Financial and Information Service Company Limited, which was wholly owned by our Founding Shareholders. Upon completion of this acquisition, RMB 1.34 million was recognized as goodwill accordingly.

(c) Fund investments managed by Chun Da

As at December 31, 2017, we held RMB 154.18 million (net of fair value loss) in fund investments managed by Chun Da. Chun Da is a wholly owned subsidiary within us which primarily provides asset management services.

As at December 31, 2018, the Group did not hold any amounts in fund investments managed by Chun Da.

As at December 31, 2019, we held RMB 3.77 million (net of fair value loss) in fund investments managed by Chun Da that were not consolidated into our consolidated financial statements. Chun Da is a wholly owned subsidiary within us which primarily provides asset management services.

(d) Loan to Group's management personnel

On July 1, 2018, we approved a staff benefit plan in the form of staff loan. The plan provides non-interest bearing staff loans for house purchase. As at December 31, 2018, we have granted RMB 5 million to our management personnel. This amount has been fully received as at December 31, 2019.

(e) Advanced leasing deposit with Shanghai Xie Yu Properties Limited

On May 1, 2018, we entered into an advanced leasing agreement with Shanghai Xie Yu Properties Limited (Xie Yu) and have paid RMB 20 million as non-interest bearing deposit in advance. Based on the agreement, future rent can be paid out from the deposit. We identify Xie Yu as a related party, because we could impose significant influence on Xie Yu through our CEO's spouse.

(f) Chun Da fund investments held by management personnel

As at December 31, 2019, the Group has amount due to related parties of RMB4.43 million, which represents Chun Da fund investments held by management personnel.

Employment Agreements

See "Item 6. Directors, Senior Management and Employees—B. Compensation—Employee Agreements" for a description of the employment agreements we have entered into with our senior executive officers.

Share Incentives

See "Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plan" for a description of share options we have granted to our directors, officers and other individuals as a group.

C. Interests of Experts and Counsel

Not applicable.

Item 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Consolidated Financial Statements

See Item 18. “Financial Statements” for our audited consolidated financial statements filed as a part of this annual report.

Legal Proceedings

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. Any such claims, even if lacking merit, could result in the expenditure of managerial resources and materially adversely affect its business, financial condition and results of operations. Except as described below, we are not and have not been involved in any legal proceedings which may have, or have had, a significant effect on our business, financial position and results of operations or liquidity, and we are not aware of any proceedings that are pending or threatened which may have a significant effect on our business, financial position, results of operations or liquidity.

The Company is involved in various legal actions arising in the ordinary course of its business

On November 26, 2018, our subsidiary Shanghai Qian Jing Industrial Co., Ltd initiated legal proceedings to collect an aggregated claim of RMB12 million for cooperative contract and the case has been settled subsequently. We have fully recovered our claims in March 2019.

On January 6, 2020, the Shenzhen Futian District Court ruled in favor of 17 natural person plaintiffs in a proceeding against our subsidiary Shanghai Gold Master Internet Financial Information Service Co., Ltd. and another defendant Shenzhen Financial Electronics Settlement Center Co., Ltd. for property damage. The Shenzhen Futian District Court ordered the defendants to pay an aggregate amount of RMB2,751,972.95 to those plaintiffs. On January 16, 2020, the defendants appealed to the Shenzhen Middle Court and the case is currently awaiting second trial before the Shenzhen Middle Court.

Dividends and Dividend Policy

In March 2017, we announced a dividend of US\$0.80 per ADS for the fiscal year of 2016, and the aggregate amount of this dividend payment was US\$55.9 million. In March 2018, we announced a dividend of US\$0.40 per ADS for the fiscal year of 2017, and the aggregate amount of this dividend payment was US\$28.2 million. For the full fiscal year of 2018, our board of directors resolved not to pay dividends to our shareholders because our business incurred substantial losses and the funds would be reserved to maintain cash flow at a healthy level for our operations. In March 2020, our board of directors approved a dividend of US\$0.30 per ADS for the fiscal year of 2019 and the aggregate amount of this dividend payment was US\$21.9 million. The US\$0.30 per ADS payment amount includes a regular annual dividend of US\$0.10 per ADS (equivalent to approximately 40% of the Company’s consolidated net profit), plus a special dividend of US\$0.20 per ADS.

In the future, we will consider to pay dividends to our ordinary shareholders, while the timing, amount and form of future dividends, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

Our board of directors may from time to time declare dividends or authorize other distributions to our shareholders. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend on its shares out of either profit, retained earnings or share premium amount, provided that under no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business.

If we pay any dividends, our ADS holders will be entitled to such dividends to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Item 12. Description of Securities Other than Equity Securities—D. American Depositary Shares.” Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

We are a holding company with no material operations of our own. As a result, we rely on dividends paid by our subsidiary in China for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, service any debt we may incur and pay our expenses. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. Under PRC law, each of our affiliates in China is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund a statutory reserve until such reserve reached 50% of its registered capital, and to further set aside a portion of its after-tax profits to fund the discretionary fund at the discretion of the shareholders of our affiliates. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation of the companies. See “Item 3. Risk Factors—Risks Related to Our Corporate Structure—We principally rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us, or the tax implications of making payments to us, could have a material adverse effect on our ability to conduct our business or our financial condition.” In addition, if our existing subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us.

B. SIGNIFICANT CHANGES

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Item 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Price Range of American Depositary Shares

Our ADSs, each representing 20 of our ordinary shares, have been listed on the NASDAQ Global Select Market since April 27, 2016. Our ADSs trade under the symbol “YIN” since April 2016.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our ADSs, each representing 20 of our ordinary shares, have been listed on The NASDAQ Global Select Market since April 27, 2016 under the symbol “YIN.”

D. SELLING SHAREHOLDER

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

Item 10. ADDITIONAL INFORMATION

A SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

We incorporate by reference into this annual report the description of our amended and restated memorandum and articles of association contained in our registration statement on Form F-1 (File No. 333-210584) filed with the Securities and Exchange Commission on April 19, 2016.

C. MATERIAL CONTRACTS

We have not entered into any material contracts other than in the ordinary course of business or other than those described in “Item 4. Information on the Company” and in “Item 7. Major shareholders and Related Party Transactions” or elsewhere in this annual report.

D. EXCHANGE CONTROLS

See “Item 4. Information on the Company —B. Business Overview—Regulation—Foreign Exchange Administration.”

E. TAXATION

The following discussion of the material Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any current or prospective holder of our ADSs or ordinary shares. This discussion does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws, or tax laws of jurisdictions other than the Cayman Islands, PRC and the United States.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. There are no exchange control regulations or currency restrictions in the Cayman Islands.

PRC Taxation

Under the EIT law and its implementation rules, both effective on January 1, 2008, all domestic and foreign investment companies will be subject to a uniform enterprise income tax at the rate of 25% and dividends from PRC enterprises to their foreign shareholders will be subject to a withholding tax at a rate of 10% if the foreign investors are considered as non-resident enterprises without any establishment or place within the PRC or if the dividends payable have no connection with the establishment or place of the foreign investors within the PRC, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a lower withholding tax rate. In accordance with *Caishui (2008) No. 1* issued by the Ministry of Finance (“MOF”) and SAT on February 22, 2008, the accumulative undistributed profits of foreign investment companies generated before January 1, 2008, and distributed to foreign investors after year 2008, shall be exempt from withholding tax.

The EIT Law has introduced the concept of “resident enterprises” and corresponding tax liability on resident enterprises’ worldwide income, whilst “non-resident enterprises” without any place or establishment in the PRC are required to pay 10% income tax on their passive incomes from sources within China only. A resident enterprise refers to an enterprise that (i) was established/incorporated within the PRC, or (ii) was established/ incorporated under the laws of a foreign jurisdiction but has its “de facto management body” in the PRC. A non-resident enterprise refers to an enterprise which was established/incorporated under the laws of a foreign jurisdiction and does not have its “de facto management body” in the PRC, but has an establishment or place in the PRC, or has China-sourced income even though it does not have any establishment or place in the PRC.

Under the implementation rules of the EIT Law, “de facto management body” is defined as an organization that has material and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued a *Notice on Issues Relating to Determination of PRC-Controlled Offshore Enterprises as PRC Resident Enterprises Based on “De facto Management Body” Test* (“SAT Circular No. 82”), under which, an offshore enterprise controlled by a PRC enterprise or a PRC enterprise group will be characterized as a “resident enterprise” due to the fact that its “de facto management body” is located within the PRC, if all of the following conditions are met at the same time: (i) the senior management personnel responsible for its daily operations and the place where the senior management departments discharge their responsibilities are located primarily in the PRC, (ii) its finance and human resources related decisions are made by or are subject to the approval of institutions or personnel located in the PRC, (iii) its major assets, books and records, company seals and minutes of its board of directors and shareholder meetings are located or kept in the PRC, and (iv) senior management personnel or 50% or more of the members of its board of directors with voting power of the enterprise reside in the PRC. SAT Circular No. 82 further specifies that the principle of “substance over form” shall be adopted in determining whether the “de facto management body” is located within China. Although SAT Circular No. 82 only applies to offshore enterprises funded by Chinese enterprises as controlling shareholders instead of those funded by Chinese or foreign individuals or foreign enterprises as controlling shareholders (as our cases may be), the determining criteria set forth in this SAT Circular No. 82 reflects SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of how they are funded. Still, it remains unclear how PRC tax authorities will determine the tax residency status of foreign enterprises controlled by individuals or foreign entities, such as us. If the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including ADS holders) may be subject to PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% (unless a reduced rate is available under an applicable tax treaty). It is also unclear whether non-PRC shareholders would be able to claim the benefits of any tax treaties between their tax residence and the PRC in the event that Yintech is treated as a PRC resident enterprise.

Pursuant to Paragraph 5 of Article 12 of the PRC-US Tax Treaty, gains from the alienation of shares of a company which is a PRC resident other than those mentioned in paragraph 4 (which refers to shares of a company the property of which consists principally of real property in the PRC) and representing a participation of at least 25% may be taxed in China. Paragraph 6 of Article 12 of the PRC-US Tax Treaty further specifies that “[G]ains derived by a resident of a Contracting State from the alienation of any property other than that referred to in paragraphs 1 through 5 and arising in the other Contracting State may be taxed in that other Contracting State.” By virtue of this provision, the capital gains realized by U.S. residents may be taxed in the PRC if the capital gains are considered as “arising in” the PRC. Under the CIT Law and its implementing rules, the capital gains from transfer of shares may be considered as “arising in” the PRC if the enterprise whose shares are transferred is “located in” China. If we are considered a PRC resident enterprise, and if the Chinese tax authorities take the position that a PRC resident enterprise is deemed to be located in China, the capital gains realized by the U.S. residents from transfer of their shares may be taxed in the PRC depending on how the PRC-US Tax Treaty is interpreted and implemented by the Chinese tax authorities.

United States Federal Income Tax Considerations

The following are material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of the ADSs or ordinary shares, but this discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person’s decision to hold the ADSs or ordinary shares.

This discussion applies only to a U.S. Holder that holds the ADSs or ordinary shares as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances, including the alternative minimum tax, the Medicare contribution tax on net investment income and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities that use a mark-to-market method of tax accounting;
- persons holding ADSs or ordinary shares as part of a straddle, conversion transaction, integrated transaction or similar transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes and their partners;
- tax-exempt entities, including "individual retirement accounts" or "Roth IRAs";
- persons that own or are deemed to own ADSs or ordinary shares representing 10% or more of our voting power or value;
- persons who acquire our ADSs or ordinary shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding ADSs or ordinary shares in connection with a trade or business outside the United States.

If a partnership (or other entity that is classified as a partnership for U.S. federal income tax purposes) owns ADSs or ordinary shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning ADSs or ordinary shares and their partners should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of ADSs or ordinary shares.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the income tax treaty between the United States and the PRC, or the Treaty, all as of the date hereof, any of which is subject to change, possibly with retroactive effect.

As used herein, a "U.S. Holder" is a beneficial owner of the ADSs or ordinary shares that is, for federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying shares represented by those ADSs.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of ADSs or ordinary shares in their particular circumstances.

The U.S. Treasury has expressed concern that parties to whom American depositary shares are released before the underlying shares are delivered to the depositary (a “pre-release”), or intermediaries in the chain of ownership between holders of American depositary shares and the issuer of the security underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depositary shares. These actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of PRC taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, each described below, could be affected by actions taken by such parties or intermediaries. U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of ADSs or ordinary shares in their particular circumstances.

Taxation of Distributions.

This discussion assumes that the Company is not, and will not become, a passive foreign investment company, or a PFIC, as described below.

Distributions paid on our ADSs or ordinary shares, other than certain pro rata distributions of ADSs or ordinary shares, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. Dividends will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to certain non-corporate U.S. Holders may be taxable at reduced rates. Non-corporate U.S. Holders should consult their tax advisers regarding the availability of the reduced tax rate on dividends in their particular circumstances.

Dividends will be included in a U.S. Holder’s income on the date of the U.S. Holder’s, or in the case of ADSs, the Depositary’s, receipt. The amount of any dividend income paid in foreign currency will be the U.S. dollar amount calculated by reference to the spot rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars on such date. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the amount received. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt.

Dividends will be treated as foreign-source income for foreign tax credit purposes. Dividends paid by the Company may be subject to PRC withholding tax. For U.S. federal income tax purposes, the amount of the dividend income may include amounts withheld in respect of the PRC withholding tax. Subject to applicable limitations, which vary depending upon the U.S. Holder’s circumstances, and subject to the discussion above regarding concerns expressed by the U.S. Treasury, PRC taxes withheld from dividend payments (at a rate not exceeding the applicable rate provided in the Treaty in the case of a U.S. Holder that is eligible for the benefits of the Treaty) generally will be creditable against a U.S. Holder’s U.S. federal income tax liability. The rules governing foreign tax credits are complex and U.S. Holders should consult their tax advisers regarding the creditability of foreign tax credits in their particular circumstances. In lieu of claiming a credit, a U.S. Holder may elect to deduct such PRC taxes in computing its taxable income, subject to applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

Sale or Other Taxable Disposition of ADSs or Ordinary Shares. A U.S. Holder will generally recognize capital gain or loss on a sale or other taxable disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized on the sale or other taxable disposition and the U.S. Holder’s tax basis in such ADSs or ordinary shares disposed of, in each case as determined in U.S. dollars. The gain or loss will be long-term capital gain or loss if, at the time of the sale or disposition, the U.S. Holder has owned the ADSs or ordinary shares for more than one year. Long-term capital gains recognized by non-corporate U.S. Holders may be subject to tax rates that are lower than those applicable to ordinary income. The deductibility of capital losses is subject to limitations.

Gains on the sale of ADSs or ordinary shares may be subject to PRC taxes. A U.S. Holder will be entitled to use foreign tax credits to offset only the portion of its U.S. federal income tax liability that is attributable to foreign-source income. Because under the Code capital gains of U.S. persons are generally treated as U.S.-source income, this limitation may preclude a U.S. Holder from claiming a credit for all or a portion of any PRC taxes imposed on any such gains. However, U.S. Holders that are eligible for the benefits of the Treaty may be able to elect to treat the gain as PRC-source and therefore claim foreign tax credits in respect of PRC taxes on such disposition gains. U.S. Holders should consult their tax advisers regarding their eligibility for the benefits of the Treaty and the creditability of any PRC tax on disposition gains in their particular circumstances.

Passive Foreign Investment Company Rules

In general, a non-U.S. corporation will be a PFIC for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income. For purposes of the above calculations, a non-U.S. corporation that directly or indirectly owns at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes interest, rents, dividends, royalties and net gains from transactions relating to commodities (other than certain active business income, including gains derived by certain dealers in property).

Based upon the manner in which we currently operate our business, the present composition of our income and assets and the estimated value of our assets, including goodwill, we do not expect to be a PFIC for our current taxable year or in the foreseeable future. However, our PFIC status is a factual determination that is made on an annual basis. Because our PFIC status for any taxable year will depend on the manner in which we operate our business (including the manner and extent to which we hedge our positions with customers) and on the composition of our income and assets and the value of our assets from time to time (the value of which may be determined, in part, by reference to the market price of our ADSs, which is likely to fluctuate significantly) there can be no assurance that we will not be a PFIC for any taxable year.

Generally, if we are a PFIC for any taxable year during which a U.S. Holder owned our ADSs or ordinary shares, gain recognized upon a disposition (including, under certain circumstances, a pledge) of ADSs or ordinary shares by the U.S. Holder will be allocated ratably over the U.S. Holder's holding period for the ADSs or ordinary shares. The amounts allocated to the taxable year of disposition and to years before we became a PFIC will be taxed as ordinary income. The amounts allocated to each other taxable year will be subject to tax at the highest rate in effect for that taxable year for individuals or corporations, as appropriate, and an interest charge will be imposed on the tax allocated to each taxable year. Further, to the extent that any distribution received by a U.S. Holder on its ADSs or ordinary shares exceeds 125% of the average of the annual distributions received (or deemed received) during the preceding three years or the U.S. Holder's holding period, whichever is shorter, the distribution will be subject to taxation in the manner described above.

Alternatively, if we were a PFIC and our ADSs or ordinary shares were "regularly traded" on a "qualified exchange," a U.S. Holder could make a mark-to-market election with respect to its ADSs or ordinary shares, which would result in tax treatment different from the general tax treatment for PFICs described above. The ADSs or ordinary shares would be treated as "regularly traded" for any calendar year in which more than a de minimis quantity of the ADSs or ordinary shares were traded on a qualified exchange on at least 15 days during each calendar quarter. The NASDAQ, where our ADSs are expected to be listed, is a qualified exchange for this purpose. If a U.S. Holder makes the mark-to-market election, the U.S. Holder generally will recognize as ordinary income any excess of the fair market value of the ADSs at the end of each taxable year over their adjusted tax basis, and will recognize an ordinary loss in respect of any excess of the adjusted tax basis of the ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). If a U.S. Holder makes the election, the U.S. Holder's tax basis in the ADSs will be adjusted to reflect these income or loss amounts. In addition, if a U.S. Holder makes the mark-to-market election, any gain that the U.S. Holder recognizes on the sale or other disposition of ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as an ordinary loss (but only to the extent of the net amount of income previously included as a result of the mark-to-market election), and any distributions paid on the ADSs will be treated as discussed under "—Taxation of Distributions" above. If we were a PFIC and any of our subsidiaries or other entities in which we own equity interests were also a PFIC, or a Lower-tier PFIC, a U.S. Holder would not be able to make a mark-to-market election with respect to such Lower-tier PFIC and may therefore be subject to federal income tax under the general PFIC rules described in the preceding paragraph with respect to certain distributions by, or gains from disposition of ordinary shares of, such Lower-tier PFIC.

We do not intend to provide U.S. Holders with the information necessary to make qualified electing fund elections which, if available, could result in a further alternative tax treatment were we a PFIC.

If we are a PFIC for any taxable year during which a U.S. Holder owns ADSs or ordinary shares, we will generally continue to be treated as a PFIC with respect to the U.S. Holder for all succeeding years during which the U.S. Holder owns ADSs or ordinary shares, even if we cease to meet the threshold requirements for PFIC status. If a U.S. Holder owns ADSs or ordinary shares during any year in which we are a PFIC, the U.S. Holder generally will be required to file annual reports on IRS Form 8621 (or any successor form) with respect to us, generally with the U.S. Holder's federal income tax return for that year. U.S. Holders should consult their tax advisers regarding the determination of whether we are a PFIC for any taxable year and the potential application of the PFIC rules.

Information Reporting and Backup Withholding. Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and to backup withholding, unless (i) the U.S. Holder is a corporation or other "exempt recipient" and (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders who are individuals (and certain entities controlled by individuals) may be required to report information relating to their ownership of ADSs or ordinary shares, unless the ADSs or ordinary shares are held in accounts at financial institutions (in which case the accounts may be reportable if maintained by non-U.S. financial institutions). U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to the ADSs or ordinary shares.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENTS BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We have filed with the SEC a registration statement on Form F-1 (Registration No. 333-210584), as amended, including the annual report contained therein, to register the issuance and sale of our ordinary shares represented by ADSs in relation to our initial public offering. We have also filed a registration statement on Form F-6 (Registration No. 333-210823), a registration statement on Form S-8 (Registration No. 333-212926), and a registration statement on Form 8-A (Registration No. 001-37750), including relevant exhibits and schedules under the Securities Act, covering the ordinary shares represented by the ADSs, as well as the ADSs. You should refer to our registration statements and their exhibits and schedules if you would like to find out more about us and about the ADSs and the ordinary shares represented by the ADSs. This annual report summarizes material provisions of contracts and other documents to which we refer you. Since the annual report may not contain all the information that you may find important, you should review a full text of these documents.

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we will be required to file reports, including annual reports on Form 20-F, and other information with the SEC. All information filed with the SEC can be obtained over the internet at the SEC's website at www.sec.gov or inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of documents, upon payment of a duplicating fee, by writing to the SEC. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. Information about Yintech Investment Holdings Limited is also available on the web at ir.yintech.net.

We will furnish to The Bank of New York Mellon, as depositary of our ADSs, copies of our annual report. When the depositary receives these reports, it will upon our request promptly provide them to all holders of record of ADSs. We will also furnish the depositary with all notices of shareholders' meetings and other reports and communications in English that we make available to our shareholders. The depositary will make these notices, reports and communications available to holders of ADSs and will upon our request mail to all holders of record of ADSs the information contained in any notice of a shareholders' meeting it receives.

I. SUBSIDIARY INFORMATION

Not applicable.

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position due to adverse change in financial market prices and rates. In the course of our normal operations, we are exposed to market risks, including fluctuations in foreign currency exchange rates and interest rates.

Foreign Exchange Risk

All of our revenues and substantially all of our expenses are denominated in RMB. In our consolidated financial statements, our financial information that uses RMB as the functional currency has been translated into U.S. dollars. Currently our exposure to foreign exchange risk primarily relates to our cash and cash equivalents denominated in U.S. dollars as a result of the proceeds from our initial public offering. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although in general our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and RMB because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The value of the RMB against the U.S. Dollar and other currencies is affected by changes in China's political and economic conditions and China's foreign exchange policies, among other things. On July 21, 2005, the PRC government changed its decades-old policy of pegging the value of the RMB to the U.S. Dollar, and the RMB appreciated by more than 20% against the U.S. Dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. Dollar remained within a narrow band. Since June 2010, the RMB has fluctuated against the U.S. Dollar, at times significantly and unpredictably, and in recent years the RMB has depreciated significantly against the U.S. Dollar. Since October 1, 2016, the RMB has joined the International Monetary Fund's basket of currencies that make up the Special Drawing Right ("SDR"), along with the U.S. Dollar, Euro, Japanese yen and British pound. In 2016 and 2017, the value of the RMB depreciated by approximately 7.2% and appreciated by approximately 6.7% against the U.S. Dollar, respectively. From the end of 2017 through the end of November 2018, the value of the RMB depreciated by approximately 6.5% against the U.S. Dollar. With the development of the foreign exchange market and progress towards interest rate liberalization and RMB internationalization, the PRC government may in the future announce further changes to the exchange rate system and there is no guarantee that the RMB will not appreciate or depreciate significantly in value against the U.S. Dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. Dollar in the future.

To the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amounts available to us.

Credit Risk

Credit risk is the exposure to credit loss in the event of non-performance by the counterparties related to cash and cash equivalents, restricted cash, trade receivables and interest rate swap agreements, if applicable. In order to minimize counterparty risk, bank relationships are established with counterparties with acceptable credit ratings at the time of the transactions. Substantially all of our cash at banks and wealth management products are deposited in large PRC state-owned or state-controlled banks. Credit risk related to receivables is limited by performing ongoing credit evaluations of the customers' financial condition.

Interest Rate Risk

As a part of our business, we invest in interest-earning assets and are obligated on interest-bearing liabilities. Interest rate fluctuations primarily affect our interest income and interest expenses. We earn interest income primarily from margin financing and make interest payments on deposits we hold on behalf of our customers and borrowings provided by commercial lenders. Changes in interest rates could affect the interest earned on assets differently than interest paid on liabilities. A rising interest rate environment generally results in a larger net interest spread. Conversely, a falling interest rate environment generally results in a smaller net interest spread. Our most prevalent form of interest rate risk is referred to as “gap” risk. This risk occurs when the interest rates we earn on assets change at a different frequency or scale than the interest rates we pay on liabilities.

Our exposure to interest rate risk primarily relates to the floating interest rates for our own cash deposited with banks. We have not been exposed to material risks due to changes in market interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure. However, we cannot provide assurance that we will not be exposed to material risks due to changes in market interest rate in the future. To the extent we decide to do so in the future, we cannot be assured that any future hedging activities will protect us from fluctuations in interest rates.

Inflation Risk

To date, inflation in China has not materially impacted our results of operations. According to the PRC National Bureau of Statistics, the year-over-year percent changes in the consumer price index for December 2017, 2018 and 2019 were increases of 1.6%, 2.1% and 2.9%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. DEBT SECURITIES

Not applicable.

B. WARRANTS AND RIGHTS

Not applicable.

C. OTHER SECURITIES

Not applicable.

D. AMERICAN DEPOSITARY SHARES

Fees and Charges Our ADS Holders May Have to Pay

Persons depositing or withdrawing shares or ADS holders must pay:	For:
\$5.00 (or less) per 100 ADSs (or portion thereof)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
\$0.05 (or less) per ADS (or portion thereof)	Any cash distribution to ADS holders
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depositary to ADS holders
\$0.05 (or less) per ADS (or portion thereof) per annum	Depository services
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement) Converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

The Bank of New York Mellon is the depository of our ADS program. A holder of ADSs may have to pay certain fees of The Bank of New York Mellon, as depository, and certain taxes, registration and transfer charges and fees and governmental charges and fees. The depository collects fees for delivery and surrender of ADSs directly from holders depositing shares or surrendering ADSs for the purpose of withdrawal, or from intermediaries acting for them. The depository collects fees for making distributions to holders by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may collect its annual fee for depository services by deduction from cash distributions or by directly billing holders or by charging the book-entry system accounts of participants acting for them. The depository may collect any fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depository may generally refuse to deliver ADSs or deposited shares or to forward any distributions until its fees for those services are paid.

Fees and Other Payments Made by the Depository to Us

From time to time, the depository may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depository or share revenue from the fees collected from ADS holders.

PART II

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

See “Item 10. Additional Information” for a description of the rights of securities holders, which remain unchanged.

Item 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Based upon this evaluation, our management has concluded that, as of December 31, 2019, our existing disclosure controls and procedures were ineffective, solely due to the material weaknesses in internal control over financial reporting identified below.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the exchange Act). Under the supervision and with the participation of our Chief Executive Officer and Interim Chief Financial Officer, our management conducted an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019 based on the criteria established in Internal Control — Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management determined that our internal control over financial reporting was ineffective due to the presence of a material weakness.

The material weakness identified relates to our lack of sufficient accounting personnel with appropriate knowledge of U.S. GAAP and SEC reporting requirements and failure to establish and clearly communicate acceptable policies regarding U.S. GAAP financial reporting.

A material weakness (as defined in Rule 12b-2 under the Exchange Act) is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented on a timely basis.

This control deficiency creates a reasonable possibility that a material misstatement to the consolidated financial statements will not be prevented or detected on a timely basis, and therefore we concluded that the deficiency represents a material weakness in the Company's internal control over financial reporting and our internal control over financial reporting was not effective as of December 31, 2019.

Our independent registered public accounting firm had not undertaken a comprehensive assessment of our internal control under the Sarbanes-Oxley Act for purposes of identifying and reporting any weakness or significant deficiency in our internal control over financial reporting, as our independent registered public accounting firm will be required to do once we cease to be an emerging growth company. Had our independent registered public accounting firm performed an audit of our internal control over financial reporting, additional control deficiencies may have been identified.

Remediation of Material Weaknesses

To address the material weakness and control deficiencies identified and to improve our internal control over financial reporting and disclosure controls, we have developed a plan to implement further measures. We have implemented and will continuously use the following measures to improve our internal control over financial reporting: (i) hiring additional competent accounting staff with appropriate knowledge and experience of U.S. GAAP and SEC reporting requirements; (ii) implementing regular and continuous trainings on U.S. GAAP and SEC regulations for our accounting personnel; and (iii) developing and implementing a full set of U.S. GAAP accounting policies and financial reporting procedures as well as related internal control policies, including implementing a comprehensive accounting manual to guide day-to-day accounting operations and reporting work. We expect to complete these measures as soon as practicable. We expect that we will incur significant costs in the implementation of such measures. However, the implementation of these measures may not fully address the deficiencies in our internal control over financial reporting. We are not able to estimate with reasonable certainty the costs that we will need to incur to implement these and other measures designed to improve our internal control over financial reporting.

Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report by our independent registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

Changes in Internal Control over Financial Reporting

Other than as described above, there were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Feng Li, an independent director (under the standards set forth under Rule 10A-3 under the Exchange Act and Rule 5605(a)(2) of the NASDAQ Listing Rules) and the chairman of our audit committee, qualifies as an audit committee financial expert as such term is defined in Item 16A(b) of Form 20-F.

Item 16B. CODE OF ETHICS

Our board of directors has adopted a code of business conduct and ethics that applies to our directors, officers and employees in April 2016. We have made our code of business conduct and ethics publicly available on our website at ir.yintech.net.

Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by KPMG Huazhen LLP, our principal external auditors, for the period indicated.

	For the year ended December 31,		
	2017 US\$	2018 US\$ (in thousands)	2019 US\$
Audit fees ⁽¹⁾	712	660	606
Tax fees ⁽²⁾	—	30	57

(1) “Audit fees” represents the aggregate fees billed for each of the fiscal years listed for professional services rendered by our principal accounting firm for the audit of our annual consolidated financial statements, and/or services that are normally provided by the auditors in connection with statutory and regulatory filings or engagement.

(2) “Tax fees” represents the aggregate fees billed for each of the fiscal years listed for the professional tax services rendered by our principal auditors.

All auditing and non-auditing services provided by our independent auditors must be pre-approved by our audit committee. Before the establishment of our audit committee upon the completion of our initial public offering in April 2016, our board of directors approved all services as described above.

Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Share Repurchase Program

On May 30, 2019, the board of directors of the Company adopted on a share repurchase program to repurchase up to US\$20 million of our issued and outstanding ADSs during the following 12-month period starting from June 1, 2019. As of December 31, 2019, we have repurchased an aggregate of 274,970 ADSs for a total amount slightly over US\$1,342 thousand since June 1, 2019.

Item 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

Item 16G. CORPORATE GOVERNANCE

We are incorporated in the Cayman Islands and qualify as a “foreign private issuer” under the Securities Act, which, pursuant to the NASDAQ Listing Rules, allows us to follow home country practice in lieu of the NASDAQ corporate governance requirements subject to certain exceptions and requirements and except to the extent that such exemptions would be contrary to U.S. federal securities laws and regulations. The significant differences between our corporate governance practices and those followed by U.S. companies under the NASDAQ Listing Rules are summarized as follows:

- We follow home country practice that permits us not to have a board with a majority of independent directors in lieu of complying with Rule 5605(b)(1). Our board is currently composed of six members, only three of whom are independent directors.
- We follow home country practice that permits our board of directors not to have a compensation committee composed solely of independent directors in lieu of complying with Rule 5605(d)(2). Our compensation committee is currently composed of two members, only one of whom is independent director.
- We follow home country practice that permits our board of directors not to have a nomination committee composed solely of independent directors in lieu of complying with Rule 5605(e)(1). Our nominating and corporate governance committee is currently composed of three members, only one of whom is independent director.
- We follow home country practice that permits us not to hold an annual meeting of shareholders no later than one year after the end of our fiscal year-end.
- We follow home country practice that permits our independent directors not to hold regularly scheduled meetings at which only independent directors are present in lieu of complying with Rule 5605(b)(2).

We are not required to and will not voluntarily meet the above requirements. As a result of our use of the “foreign private issuer” exemptions, you will not have the same protection afforded to shareholders of companies that are subject to all of NASDAQ’s corporate governance requirements.

Item 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III**Item 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements pursuant to Item 18.

Item 18. FINANCIAL STATEMENTS

Our consolidated financial statements are included at the end of this annual report.

Item 19. EXHIBITS

Exhibit Number	Description of Document
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 4, 2016)
2.1	Form of the Registrant’s American Depositary Receipt (incorporated herein by reference to Exhibit 4.1 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 19, 2016)

Exhibit Number	Description of Document
2.2	Specimen Certificate for Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 19, 2016)
2.3	Form of Deposit Agreement among the Registrant, the Depositary and Holders of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 19, 2016)
2.4*	Description of Securities
4.1	Second Amended and Restated 2013 Share Option Scheme (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 19, 2016)
4.2	Third Amended and Restated 2014 Share Option Scheme (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 19, 2016)
4.3	Third Amended and Restated Pre-IPO RSU Scheme (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 19, 2016)
4.4	Form of Indemnification Agreement entered into between the Registrant and its directors and officers (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 4, 2016)
4.5	Employment Agreement between the Registrant and Executive Officers of the Registrant (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 4, 2016)
4.6	English Translation of Membership Agreement between the Tianjin Precious Metals Exchange and Tianjin Rong Jin Hui Yin Precious Metal Management Co., Ltd. (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 4, 2016)
4.7	English Translation of Membership Agreement between the Guangdong Precious Metals Exchange and Guangdong Jin Xiang Yin Rui Precious Metal Management Co., Ltd. (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 4, 2016)
4.8	English Translation of Risk Disclosure and Trading Agreement between the Guangdong Precious Metals Exchange and Guangdong Jin Xiang Yin Rui Precious Metal Management Co., Ltd. (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 4, 2016)
4.9	English Translation of Risk and Return Transfer Agreement with Pan Hou Wei Ran — PHC Commodity Equity Interest Swap Fund No. 1 (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 4, 2016)
4.10	English Translation of Supplemental Risk and Return Transfer Agreements with Pan Hou Wei Ran — PHC Commodity Equity Interest Swap Fund No. 1 (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 4, 2016)

Exhibit Number	Description of Document
4.11	English Translation of Risk and Return Transfer Execution Guarantee Agreement with Pan Hou Wei Ran — PHC Commodity Equity Interest Swap Fund No. 1 (incorporated herein by reference to Exhibit 10.11 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 4, 2016)
4.12	Subscription Agreement dated March 24, 2016 by and between the Registrant and MeMeStar Limited (incorporated herein by reference to Exhibit 10.12 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 4, 2016)
8.1*	List of Significant Subsidiaries of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1, as amended (File No. 333-210584), initially filed with the Securities and Exchange Commission on April 4, 2016)
12.1*	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	Certification by Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2*	Certification by Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Independent Registered Public Accounting Firm
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this annual report on Form 20-F

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Yintech Investment Holdings Limited

By: /s/ Wenbin Chen
Name: Wenbin Chen
Title: Chairman and Chief Executive Officer

Date: April 27, 2020

**CONSOLIDATED FINANCIAL STATEMENTS OF
YINTECH INVESTMENT HOLDINGS LIMITED**

Table of Contents

	<u>Page(s)</u>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2018 and 2019	F-3
Consolidated Statements of Comprehensive Income/(Loss) for the Years Ended December 31, 2017, 2018 and 2019	F-4
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2017, 2018 and 2019	F-5 - F-7
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2018 and 2019	F-8 - F-9
Notes to Consolidated Financial Statements	F-10 - F-71

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Yintech Investment Holdings Limited (the “Company”):

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Yintech Investment Holdings Limited and subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income/(loss), shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Huazhen LLP

We have served as the Company’s auditor since 2015.

Shanghai, China
April 27, 2020

YINTECH INVESTMENT HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS (Amounts in thousands)

	Note	2018 RMB	December 31, 2019 RMB	2019 (Note2) USD Unaudited
Assets				
Cash	6	257,789	209,507	30,094
Entrusted bank balances held on behalf of customers	7	73,226	89,157	12,807
Investment securities	8	1,479,109	1,895,874	272,325
Deposits with clearing organizations		34,215	20,330	2,920
Amount due from related parties		25,000	20,000	2,873
Equity method investment	15	24,730	24,845	3,569
Equipment and leasehold improvements	9	24,316	13,844	1,989
Deferred tax assets	27	31,239	27,206	3,908
Goodwill	13	637,147	637,835	91,619
Accounts receivable	10	180,230	164,391	23,613
Operating lease right-of-use assets	22	—	34,476	4,952
Intangible assets	14	330,247	302,613	43,468
Other assets	11	155,648	225,302	32,363
Total assets		3,252,896	3,665,380	526,500
Liabilities and Shareholders' Equity				
Accounts payable (including accounts payable of the consolidated variable interest entities ("VIE") and VIE's subsidiaries without recourse to the Company of RMB 2,283 thousand and RMB 768 thousand as of December 31, 2018 and 2019, respectively)		119,469	114,552	16,454
Accrued employee benefits (including accrued employee benefits of the consolidated VIE and VIE's subsidiaries without recourse to the Company of RMB 19,708 thousand and RMB 58,417 thousand as of December 31, 2018 and 2019, respectively)		189,042	271,965	39,065
Income taxes payable (including income taxes payable of the consolidated VIE and VIE's subsidiaries without recourse to the Company of RMB 11,042 thousand and RMB 34,855 thousand as of December 31, 2018 and 2019, respectively)		95,415	171,793	24,677
Deferred tax liabilities (including deferred tax liabilities of the consolidated VIE and VIE's subsidiaries without recourse to the Company of RMB 38,287 thousand and RMB 42,177 thousand as of December 31, 2018 and 2019, respectively)	27	79,618	118,469	17,017
Operating lease liabilities	22	—	30,846	4,431
Amount due to related parties		—	4,426	636
Other liabilities (including other liabilities of the consolidated VIE and VIE's subsidiaries without recourse to the Company of RMB 62,645 thousand and RMB 127,320 thousand as of December 31, 2018 and 2019, respectively)	12	144,392	181,883	26,126
Total liabilities		627,936	893,934	128,406
Ordinary shares (US\$0.00001 par value; 3,000,000,000 shares authorized, 1,468,059,155 shares issued and 1,428,942,175 shares outstanding as of December 31, 2018; 1,431,840,215 shares issued and 1,431,078,855 shares outstanding as of December 31, 2019)	16	96	95	14
Treasury stock (39,116,980 and 761,360 shares as of December 31, 2018 and 2019, respectively)	17	(111,169)	(1,737)	(250)
Additional paid-in capital	16	1,927,854	1,830,960	263,001
Retained earnings	19	652,687	738,367	106,060
Accumulated other comprehensive income	20	47,761	50,865	7,306
Total Yintech shareholders' equity		2,517,229	2,618,550	376,131
Non-controlling interests	21	107,731	152,896	21,963
Total shareholders' equity		2,624,960	2,771,446	398,094
Commitments and contingencies	22	—	—	—
Total liabilities and shareholders' equity		3,252,896	3,665,380	526,500

The accompanying notes are an integral part of the consolidated financial statements.

YINTECH INVESTMENT HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(Amounts in thousands, except share and per share data)

	Note	Year ended December 31,			
		2017	2018	2019	2019
		RMB	RMB	RMB	(Note2) USD Unaudited
Revenues					
Commissions and fees, net	23	2,198,575	941,868	1,399,575	201,036
Trading gains, net	24	40,554	34,333	207,857	29,857
Interest and investment income		5,406	18,128	35,000	5,027
Other revenues	25	204,411	100,415	49,373	7,092
		<u>2,448,946</u>	<u>1,094,744</u>	<u>1,691,805</u>	<u>243,012</u>
Expenses					
Commission expense		—	(2,012)	(576)	(83)
Employee compensation and benefits		(1,066,553)	(808,292)	(841,205)	(120,832)
Advertising and promotion	26	(424,865)	(223,265)	(339,755)	(48,803)
Information technology and communications		(41,170)	(32,421)	(33,119)	(4,757)
Occupancy and equipment rental		(123,680)	(115,810)	(98,956)	(14,214)
Taxes and surcharges		(21,080)	(6,455)	(5,893)	(846)
Intangible assets amortization		(56,547)	(56,515)	(28,053)	(4,030)
Impairment of goodwill and intangible assets		—	(639,000)	—	—
Other expenses		(78,509)	(83,334)	(85,755)	(12,318)
		<u>(1,812,404)</u>	<u>(1,967,104)</u>	<u>(1,433,312)</u>	<u>(205,883)</u>
Income/(loss) before income taxes		636,542	(872,360)	258,493	37,129
Income tax expense	27	(169,556)	(1,028)	(127,925)	(18,375)
Net income/(loss)		466,986	(873,388)	130,568	18,754
Less: Net (loss)/gain attributable to non-controlling interests		(13,678)	(10,350)	44,888	6,448
Net income/(loss) attributable to Yintech		480,664	(863,038)	85,680	12,306
Earnings/(losses) per share	28				
Basic		0.34	(0.60)	0.06	0.01
Diluted		0.33	(0.60)	0.06	0.01
Other comprehensive income/(loss)					
Unrealized gain/(losses) on available-for-sale investments, net of tax		(800)	—	1,033	149
Foreign currency translation adjustment		(18,714)	22,538	2,348	338
Comprehensive income/(loss)		447,472	(850,850)	133,949	19,241
Comprehensive (loss)/gain attributable to non-controlling interests		(13,678)	(10,350)	45,165	6,488
Comprehensive income/(loss) attributable to Yintech		461,150	(840,500)	88,784	12,753

The accompanying notes are an integral part of the consolidated financial statements.

YINTECH INVESTMENT HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Amounts in thousands)

		Ordinary Shares		Treasury Stock		Additional paid-in capital	Retained Earnings	Accumulated other comprehensive income	Equity attributable to non-controlling interest	Total
	Note	Shares	Amount RMB	Shares	Amount RMB	Amount RMB	Amount RMB	Amount RMB	Amount RMB	Amount RMB
Balance as of										
December 31, 2016		1,377,708,575	90	—	—	2,236,778	1,035,861	43,937	(685)	3,315,981
Net income		—	—	—	—	—	480,664	—	(13,678)	466,986
Shares issued in connection with: -										
Exercise of stock options and vesting of RSUs	16	47,573,600	3	—	—	36,930	—	—	—	36,933
Disposal of a subsidiary		—	—	—	—	—	—	—	5,474	5,474
Stock repurchase	17	—	—	(11,331,080)	(36,973)	—	—	—	—	(36,973)
Share-based compensation	29	—	—	—	—	169,717	—	—	—	169,717
Dividend distribution	18	—	—	—	—	(385,113)	—	—	—	(385,113)
Business combination	4	—	—	—	—	—	—	—	22,707	22,707
Other comprehensive loss		—	—	—	—	—	—	(19,514)	—	(19,514)
Balance as of										
December 31, 2017		<u>1,425,282,175</u>	<u>93</u>	<u>(11,331,080)</u>	<u>(36,973)</u>	<u>2,058,312</u>	<u>1,516,525</u>	<u>24,423</u>	<u>13,818</u>	<u>3,576,198</u>

The accompanying notes are an integral part of the consolidated financial statements.

YINTECH INVESTMENT HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Amounts in thousands)

		Ordinary Shares		Treasury Stock		Additional paid-in capital	Retained Earnings	Accumulated other comprehensive income	Equity attributable to non-controlling interest	Total
	Note	Shares	Amount RMB	Shares	Amount RMB	Amount RMB	Amount RMB	Amount RMB	Amount RMB	Amount RMB
Balance as of December 31, 2017		1,425,282,175	93	(11,331,080)	(36,973)	2,058,312	1,516,525	24,423	13,818	3,576,198
Cumulative effect of adoption of ASU 2016-01		—	—	—	—	—	(800)	800	—	—
Net loss		—	—	—	—	—	(863,038)	—	(10,350)	(873,388)
Shares issued in connection with: -										
Exercise of stock options and vesting of RSUs	16	42,776,980	3	—	—	19,932	—	—	—	19,935
Stock repurchase	17	—	—	(27,785,900)	(74,196)	—	—	—	—	(74,196)
Share-based compensation	29	—	—	—	—	27,107	—	—	—	27,107
Dividend distribution	18	—	—	—	—	(177,497)	—	—	—	(177,497)
Capital contribution from non-controlling shareholders		—	—	—	—	—	—	—	95,550	95,550
Business combination	4	—	—	—	—	—	—	—	8,713	8,713
Other comprehensive income		—	—	—	—	—	—	22,538	—	22,538
Balance as of December 31, 2018		1,468,059,155	96	(39,116,980)	(111,169)	1,927,854	652,687	47,761	107,731	2,624,960

The accompanying notes are an integral part of the consolidated financial statements.

YINTECH INVESTMENT HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Amounts in thousands)

	Note	Ordinary Shares		Treasury Stock		Additional paid-in capital	Retained Earnings	Accumulated other comprehensive income	Equity attributable to non-controlling interest	Total
		Shares	Amount RMB	Shares	Amount RMB	Amount RMB	Amount RMB	Amount RMB	Amount RMB	Amount RMB
Balance as of December 31, 2018		1,468,059,155	96	(39,116,980)	(111,169)	1,927,854	652,687	47,761	107,731	2,624,960
Net Income		—	—	—	—	—	85,680	—	44,888	130,568
Shares issued in connection with: -										
Exercise of stock options and vesting of RSUs	16	11,833,340	2	—	—	4,867	—	—	—	4,869
Stock repurchase	17	—	—	(9,696,660)	(18,594)	—	—	—	—	(18,594)
Cancellation of treasury stock	17	(48,052,280)	(3)	48,052,280	128,026	(128,023)	—	—	—	—
Share-based compensation	29	—	—	—	—	26,262	—	—	—	26,262
Other comprehensive income		—	—	—	—	—	—	3,104	277	3,381
Balance as of December 31, 2019		1,431,840,215	95	(761,360)	(1,737)	1,830,960	738,367	50,865	152,896	2,771,446
Balance as of December 31, 2019 (USD) (Unaudited)		—	14	—	(250)	263,001	106,060	7,306	21,963	398,094

The accompanying notes are an integral part of the consolidated financial statements.

YINTECH INVESTMENT HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Cash flows from operating activities:				
Net income/(loss)	466,986	(873,388)	130,568	18,754
<i>Adjustments to reconcile net income/(loss) to cash provided by operating activities:</i>				
Depreciation and amortization	83,014	78,152	47,156	6,774
Gains/(losses) on sale of equipment	(524)	(298)	171	25
Fair value change of derivatives	45,569	—	—	—
Trading gains	(38,392)	(34,333)	(207,857)	(29,857)
Deferred tax (benefit)/expense	35,206	(61,792)	42,786	6,146
Share-based compensation	169,717	27,107	26,262	3,772
Gain from disposal of subsidiaries	(87,217)	(5,754)	(6)	(1)
Impairment of goodwill and intangible assets	—	639,000	—	—
Changes in operating assets and liabilities, net of acquisition:				
(Increase)/decrease in deposits with clearing organizations	258,875	(33,063)	13,885	1,994
(Increase)/decrease in account receivables and other assets arising from operating activities	(74,052)	105,977	(54,403)	(7,815)
(Increase)/decrease in amount due from related parties	—	(25,000)	5,000	718
Increase in amount due to related parties	—	—	4,426	636
Decrease in accounts payable	(78,427)	(78,017)	(4,917)	(706)
(Decrease)/Increase in accrued employee benefits	(2,828)	52,770	82,923	11,911
(Decrease)/ increase in other liabilities arising from operating activities	(67,058)	119,646	37,106	5,331
Increase/(decrease) in income taxes payable	(42,397)	23,361	76,378	10,971
Net cash provided by/(used in) operating activities	668,472	(65,632)	199,478	28,653
Cash flows from investing activities:				
Proceeds from sale of equipment	467	383	727	104
Cash paid for purchase of equipment and leasehold improvements	(31,945)	(10,008)	(9,529)	(1,369)
Cash paid for purchase of investment securities	(16,155,280)	(16,129,945)	(5,350,902)	(768,608)
Cash received from sale of investment securities	15,059,010	15,883,215	5,141,460	738,525
Payment for equity method investments	—	(24,500)	—	—
Proceeds /(Payment for) from acquisition of subsidiaries, net of cash and restricted cash acquired	39,618	(11,352)	—	—
Cash received/(decrease) from disposal of subsidiaries	92,024	(384)	140	20
Net cash used in investing activities	(996,106)	(292,591)	(218,104)	(31,328)

The accompanying notes are an integral part of the consolidated financial statements.

YINTECH INVESTMENT HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Amounts in thousands)

	Year ended December 31,			
	2017	2018	2019	2019
	RMB	RMB	RMB	(Note2) USD Unaudited
Cash flows from financing activities:				
Proceeds from non-controlling shareholders	—	95,550	—	—
Proceeds from exercise of options	49,409	4,451	4,869	700
Dividends paid	(385,113)	(177,497)	—	—
Purchase of treasury stock	(36,973)	(74,196)	(18,594)	(2,671)
Net cash used in financing activities	(372,677)	(151,692)	(13,725)	(1,971)
Net decrease in cash and restricted cash	(700,311)	(509,915)	(32,351)	(4,646)
Cash and restricted cash — beginning of year	1,541,241	840,930	331,015	47,547
Cash and restricted cash — end of year	840,930	331,015	298,664	42,901
Supplemental disclosure of cash flow information				
Cash paid for income taxes	134,276	22,942	14,780	2,123

The accompanying notes are an integral part of the consolidated financial statements.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**1. DESCRIPTION OF BUSINESS AND ORGANIZATION**

Yintech Investment Holdings Limited (“Yintech”, or the “Company”) was incorporated under the laws of the Cayman Islands on November 4, 2015, which was 100% ultimately owned by Chen Wenbin, Yan Ming, and Chen Ningfeng (collectively the “Founding Shareholders”), each held 40%, 30%, and 30% equity interest in Yintech.

Prior to June 2017, Yintech and its subsidiaries (hereinafter the “Group”) primarily provided trading and investment services for online spot commodity trading through three exchanges, namely Shanghai Gold Exchange (“Shanghai Exchange”), Tianjin Precious Metals Exchange (“Tianjin Exchange”) and Guangdong Precious Metals Exchange (“Guangdong Exchange”) (collectively, the “Exchanges”) in the PRC. Among the three exchanges the Group operated on, Shanghai Exchange is established by the People’s Bank of China (“PBOC”), with the approval of the State Council of the PRC, and is the only national-level exchange for spot commodity trading in China. Tianjin and Guangdong Exchanges are provincial-level exchanges supervised by the Finance Office of Tianjin Municipal Government and the Department of Commerce of Guangdong Province, respectively.

Six subsidiaries of the Group were comprehensive members of either Tianjin Exchange or Guangdong Exchange. As a comprehensive member of the Tianjin and Guangdong Exchanges, the Group earned commissions and fees on customers’ trades and served as the counterparty to customers’ trades. Therefore, the Group was exposed to market risk related to fluctuations of the prices of the underlying commodities that primarily consist of silver, palladium, platinum, copper, aluminum and nickel. In June 2016, Tianjin Exchange launched a new trading rule and a new trading system (the “New Mechanism”), under which the Group only took the broker role in customer deals and did not take positions any more. As a result, the Group started to only earn trading commissions in Tianjin Exchange. The new trading mechanism and the old version were in parallel run until the New Mechanism fully replaced the old mechanism by the end of 2016. The Group did not hold cash, securities, or property from customers that would be used to margin, guarantee, or secure any trades or contracts that result from customers’ order. On the Shanghai Exchange, the Group serves as an agent and do not hold principal positions. To a lesser extent, the Group also trades in physical commodity of raw silver.

On April 24, 2017, Guangdong Exchange announced that it has adjusted its commodity trading business in light of new market development, and in particular, it terminated the trading of all the spot commodity on the exchange on May 6, 2017.

On June 2, 2017, Tianjin Exchange announced that it would adjust its commodity trading business in order to reduce trading risks. In particular, it suspended the opening of new trading positions and significantly tightened leverage requirement for all commodities (silver, palladium and platinum) traded on the exchange starting from June 12, 2017. The closing of existing trading positions was not affected. In August and November 2017, eight subsidiaries in total that provided customers with services in relation to trading of spot commodities on Guangdong Exchange and Tianjin Exchange were disposed of.

Starting from May 2017, the Group entered into brokerage agreements with several commodity futures brokers, through which the Group provides commodity futures trading service to its individual customers on silver and other precious metal and commodities on three leading future commodity exchanges in China, namely the Dalian Commodity Exchange (“Dalian Exchange”), Zhengzhou Commodity Exchange (“Zhengzhou Exchange”) and Shanghai Futures Exchange (“Shanghai Futures”) (collectively, the “Futures Commodity Exchanges”). The Futures Commodity Exchanges are supervised by China Securities Regulatory Commission (“CSRC”).

Starting from June 2017, through xinhuanet.com, hexun.com, sina.com.cn and the Group’s self-developed and self-maintained platform, the Group provides securities advisory services to its individual clients.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

1. DESCRIPTION OF BUSINESS AND ORGANIZATION (CONTINUED)

Starting from October 2017, the Group provides asset management service to its targeting high net worth individuals in China. The Group engages in such business activity through launching and managing asset management products. The asset management services is supervised by the Asset Management Association of China (“AMAC”).

Starting from 2018, the Group provides Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities) and Type 9 regulated activity (asset management) under the Hong Kong Securities and Futures Ordinance to its individual and institutional customers through Forthright Financial Holdings Company Limited and its subsidiaries (collectively, the “Forthright Group”). The securities brokerage service, securities advisory service and asset management service are regulated by the Securities and Futures Commission of Hong Kong (“SFC”).

Starting from 2019, the Group provides Type 2 regulated activity (dealing in futures contract) and Type 5 regulated activity (advising on futures contract) under the Hong Kong Securities and Futures Ordinance to its individual and institutional customers through the Forthright Group.

As of December 31, 2019, Yintech has subsidiaries, VIEs and VIEs’ subsidiaries in countries and jurisdictions including the People’s Republic of China (“PRC”), Hong Kong, United States of America (“USA”), British Virgin Islands (“BVI”) and New Zealand (“NZ”). Details of the subsidiaries, VIEs and VIEs’ subsidiaries of the Company are set out below:

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands)

1. DESCRIPTION OF BUSINESS AND ORGANIZATION (CONTINUED)

Name of subsidiary	Date of incorporation/ acquisition	Paid up capital	% of equity interest held by the Company	Place of incorporation
Shanghai Yin Sai Computer Technology Co., Ltd. (Yin Sai) (formerly known as Shanghai Yin Tian Xia Technology Co., Ltd.)	Incorporated on June 27, 2011	RMB 5 million	100%	PRC
Shanghai Rong Qi Financial and Information Service Co., Ltd.) (formerly known as Shanghai Yin Tian Xia Financial and Information Service Co., Ltd.)	Incorporated on May 15, 2014	RMB 5 million	100%	PRC
Yintech Enterprise Co., Ltd. (formerly known as Win Yin Gold Investment Co., Ltd. (BVI))	Incorporated on September 29, 2014	USD 1 dollar	100%	BVI
Yintech Enterprise (HK) Investment Co., Ltd. (formerly known as Win Yin (HK) Gold Investment Co., Ltd.)	Incorporated on October 31, 2014	HKD 1 dollar	100%	Hong Kong
Shanghai Chun Xin Information Technology Co., Ltd. (formerly known as Shanghai Zu Ding Culture Communication Co., Ltd.)	Incorporated on April 14, 2015	RMB 1 million	100%	PRC
Shanghai Yintech Investment Group Co., Ltd. (formerly known as Shanghai Yin Tian Xia Investment Management (Group) Co., Ltd.)	Incorporated on April 14, 2015	USD 30 million	100%	PRC
Yintech Frontier Co., Ltd.	Incorporated on November 5, 2015	USD 1 dollar	100%	BVI
Yintech Elements Co., Ltd.	Incorporated on November 9, 2015	USD 1 dollar	100%	BVI
Shanghai Jin Dou Information Technology Co., Ltd. (“Jin Dou”)	Incorporated on November 12, 2015	RMB 10 million	100%	PRC
Yintech Elements (HK) Co., Ltd.	Incorporated on November 19, 2015	HKD 1 dollar	100%	Hong Kong

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands)

1. DESCRIPTION OF BUSINESS AND ORGANIZATION (CONTINUED)

Name of subsidiary	Date of incorporation/ acquisition	Paid up capital	% of equity interest held by the Company	Place of incorporation
Yintech Frontier (HK) Co., Ltd.	Incorporated on November 19, 2015	HKD 1 dollar	100%	Hong Kong
Shanghai Jin Huan Industrial Co., Ltd. (“Jin Huan”)	Incorporated on November 30, 2015	RMB 9.95 million	100%	PRC
Shanghai Jin Yi Information Technology Co., Ltd., (“Jin Yi”)	Incorporated on December 4, 2015	RMB 10 million	100%	PRC
Shanghai Yi Shi Information Technology Co., Ltd. (“Yi Shi”)	Incorporated on March 30, 2016	RMB 10 million	100%	PRC
Yintech Ventures Co., Ltd.	Incorporated on June 1, 2016	USD 1 dollar	100%	BVI
Shanghai Yin He You Co., Ltd. (“Yin He You”)	Acquired on June 1, 2016	RMB 5 million	100%	PRC
Yintech Gold Co., Ltd.	Incorporated on June 16, 2016	—	100%	BVI
Yintech Ventures (HK) Co., Ltd.	Incorporated on June 21, 2016	HKD 1 dollar	100%	Hong Kong
Shanghai Li Xian Information Technology Co., Ltd. (“Li Xian”)	Incorporated on July 26, 2016	—	100%	PRC
Shanghai Xie Luo Information Technology Co., Ltd. (“Xie Luo”)	Incorporated on July 26, 2016	—	100%	PRC
Gold Master (HK) Co., Ltd. (“Gold Master HK”)	Acquired on August 31, 2016	USD 3 million	100%	Hong Kong
Shanghai Ming Qin Information Technology Co., Ltd. (“Ming Qin”)	Acquired on August 31, 2016	—	100%	PRC
Shanghai Gold Master Network Financial Information Service Co., Ltd. (“Gold Master”)	Acquired on August 31, 2016	RMB 84 million	100%	PRC

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

1. DESCRIPTION OF BUSINESS AND ORGANIZATION (CONTINUED)

Name of subsidiary	Date of incorporation/ acquisition	Paid up capital	% of equity interest held by the Company	Place of incorporation
Shanghai Gold Master Network Technology Co., Ltd. (“Gold Master Network”)	Acquired on August 31, 2016	RMB 10 million	100%	PRC
Shanghai Xi Ben Software Technology Co., Ltd. (“Xi Ben”)	Incorporated on September 12, 2016	—	100%	PRC
Yintech Innovation Co., Ltd.	Incorporated on November 23, 2016	—	100%	BVI
Yintech Financial Holdings Co., Ltd.	Incorporated on December 12, 2016	USD 1 dollar	100%	BVI
Yintech Innovation Labs, LLC	Incorporated on December 20, 2016	USD 0.5 million	100%	USA
Shanghai Die Xiao Information Technology Co., Ltd. (“Die Xiao”)	Incorporated on December 27, 2016	RMB 1.85 million	100%	PRC
Shanghai Hai Fan Information Technology Co., Ltd. (“Hai Fan”)	Incorporated on January 22, 2017	—	100%	PRC
Shanghai Hao Ken Information Technology Co., Ltd. (“Hao Ken”)	Incorporated on February 23, 2017	RMB 0.2 million	100%	PRC
Shanghai Qian Cheng Industrial Co., Ltd. (“Qian Cheng”)	Incorporated on August 7, 2017	RMB 1 million	100%	PRC
Shanghai Qian Lin Industrial Co., Ltd. (“Qian Lin”)	Incorporated on August 8, 2017	RMB 0.01 million	100%	PRC
Shanghai Qian Jing Industrial Co., Ltd. (“Qian Jing”)	Incorporated on August 9, 2017	RMB 1 million	100%	PRC
Shanghai Qian Xi Industrial Co., Ltd. (“Qian Xi”)	Incorporated on August 9, 2017	RMB 0.06 million	100%	PRC
Shanghai Qian Dian Industrial Co., Ltd. (“Qian Dian”)	Incorporated on August 10, 2017	RMB 1 million	100%	PRC
Shanghai Qian Du Industrial Co., Ltd. (“Qian Du”)	Incorporated on August 10, 2017	RMB 0.66 million	100%	PRC

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

1. DESCRIPTION OF BUSINESS AND ORGANIZATION (CONTINUED)

Name of subsidiary	Date of incorporation/ acquisition	Paid up capital	% of equity interest held by the Company	Place of incorporation
Shanghai Qian Shi Industrial Co., Ltd. (“Qian Shi”)	Incorporated on August 10, 2017	—	100%	PRC
Shanghai Xu Fan Industrial Co., Ltd. (“Xu Fan”)	Incorporated on August 15, 2017	RMB 0.01 million	100%	PRC
Shanghai Xu Xing Industrial Co., Ltd. (“Xu Xing”)	Incorporated on August 15, 2017	RMB 0.01 million	100%	PRC
Shanghai Xu Mu Industrial Co., Ltd. (“Xu Mu”)	Incorporated on August 17, 2017	RMB 1 million	100%	PRC
Fuqing Yun Zhong Information Technology Co., Ltd. (“Yun Zhong”)	Incorporated on October 19, 2017	RMB 1 million	100%	PRC
Shanghai Miao Huan Industrial Co., Ltd. (“Miao Huan”)	Incorporated on October 24, 2017	RMB 0.51 million	100%	PRC
Shanghai Qian Fan Industrial Co., Ltd. (“Qian Fan”)	Incorporated on October 28, 2017	RMB 0.19 million	100%	PRC
Shanghai Qian Bang Industrial Co., Ltd. (“Qian Bang”)	Incorporated on October 29, 2017	RMB 0.01 million	100%	PRC
Forthright International Holdings Limited	Acquired on December 29, 2017	USD 1 dollar	100%	BVI
Forthright International Co., Ltd.	Acquired on December 29, 2017	—	100%	New Zealand
Forthright Financial Holdings Co., Ltd.	Acquired on December 29, 2017	HKD 80 million	100%	Hong Kong
Forthright Securities Co., Ltd.	Acquired on December 29, 2017	HKD 200 million	100%	Hong Kong
Forthright Management Services Co., Ltd.	Acquired on December 29, 2017	HKD 0.01 million	100%	Hong Kong

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands)

1. DESCRIPTION OF BUSINESS AND ORGANIZATION (CONTINUED)

Name of subsidiary	Date of incorporation/ acquisition	Paid up capital	% of equity interest held by the Company	Place of incorporation
Forthright Asset Management Co., Ltd.	Acquired on December 29, 2017	HKD 15 million	100%	Hong Kong
Forthright Finance Co., Ltd.	Acquired on December 29, 2017	HKD 0.5 million	100%	Hong Kong
Shanghai Fan Di Information Technology Co., Ltd. (“Fan Di”)	Acquired on December 29, 2017	HKD 20 million	100%	PRC
Shanghai Zai Bi Industrial Co., Ltd. (“Zai Bi”)	Incorporated on January 2, 2018	RMB 0.02 million	100%	PRC
Shanghai Qian Lian Industrial Co., Ltd. (“Qian Lian”)	Incorporated on January 3, 2018	RMB 0.02 million	100%	PRC
Shanghai Zai Ning Industrial Co., Ltd. (“Zai Ning”)	Incorporated on January 3, 2018	—	100%	PRC
Guangzhou Jin Shou Zhi Information Technology Co., Ltd., (“Jin Shou Zhi”)	Incorporated on January 9, 2018	RMB 0.53 million	100%	PRC
Guangzhou Hao Miao Information Technology Co., Ltd. (“Hao Miao”)	Incorporated on January 9, 2018	RMB 0.35 million	100%	PRC
OTS Capital Management (Cayman) limited	Acquired on December 4, 2018	USD 100	100%	BVI
OTS Capital Management limited	Acquired on December 4, 2018	HKD 1.24 million	100%	Hong Kong
Shanghai Fei Xiu Network Technology Co., Ltd. (“Fei Xiu”)	Incorporated on January 21, 2019	RMB 0.2 million	100%	PRC
Name of VIE	Date of incorporation/ acquisition	Paid up capital	% of equity interest held by the Company	Place of incorporation
Shanghai Bei Xun Industrial Co., Ltd. (“Bei Xun”)	Acquired on January 3, 2017	RMB 40 million	100%	PRC
Shanghai Ran Yu Information Technology Co., Ltd. (“Ran Yu”)	Acquired on January 3, 2017	RMB 20 million	100%	PRC

Name of VIE	Date of incorporation/ acquisition	Paid up capital	% of equity interest held by the Company	Place of incorporation
Guangdong Hong Feng Co., Ltd. (“Hong Feng”)	Incorporated on October 17, 2017	RMB 2.6 million	100%	PRC
Dalian Shun Fu Hui Business Information Advisory Co., Ltd. (“Shun Fu Hui”)	Incorporated on July 31, 2018	—	100%	PRC
Shanghai Chun Da Asset Management Co., Ltd. (“Chun Da”)	Acquired on October 1, 2017	RMB 10 million	100%	PRC

Name of VIE’s subsidiary	Date of incorporation/ acquisition	Paid up capital	% of equity interest held by the Company	Place of incorporation
Shanghai Hua Shu Tong Jin Industrial Co., Ltd. (“Hua Shu Tong Jin”)	Incorporated on May 26, 2017	RMB 0.03 million	100%	PRC
Guangdong Bo Zhong Securities Investment Advisory Co., Ltd. (“Bo Zhong”)	Acquired on May 31, 2017	RMB 35 million	94%	PRC
Sina Shi Jin (Shanghai) Information Technology Co., Ltd. (“Sina Shi Jin”) (formerly known as Sina Cai Dao (Shanghai) Information Technology Co., Ltd.)	Acquired on July 1, 2017	RMB 200 million	51%	PRC
Shanghai Hou Zhan Information Technology Co., Ltd. (“Hou Zhan”)	Incorporated on July 20, 2017	—	100%	PRC
Shanghai Yuan Shi Investment Advisory Co., Ltd. (“Yuan Shi”)	Acquired on August 31, 2017	RMB 2.4 million	100%	PRC
Shanghai Fu Dong Cultural Communication Co., Ltd (“Fu Dong”)	Acquired on January 31, 2018	RMB 10 million	100%	PRC
Shanghai Xin Hui Tong Investment Advisory Co., Ltd. (“Xin Hui Tong”)	Acquired on January 31, 2018	RMB 5 million	99.5%	PRC

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*****Basis of preparation***

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

Principles of consolidation

The consolidated financial statements include the accounts of Yintech and its subsidiaries, VIEs and VIEs’ subsidiaries, in which the Company is the ultimate primary beneficiary. All significant intercompany balances and transactions have been eliminated upon consolidation.

To comply with PRC legal restrictions on foreign ownership of companies that operate securities advisory, asset management and other restricted services, the Group operates these regulated business in China through certain PRC domestic companies, namely Ran Yu, Bei Xun, Hong Feng, Shun Fu Hui and Chun Da (collectively, the “VIEs” and each a “VIE”), whose equity interests are held by their nominee shareholders. The registered capital of these VIEs are funded by the Company through its wholly owned subsidiary, namely Xie Luo, and recorded as interest-free loans to these nominee shareholders. These loans were eliminated with the capital of the VIEs during consolidation. The Company began to consolidate Ran Yu, Bei Xun, Hong Feng, Shun Fu Hui and Chun Da as VIEs in January, January, October 2017, July 2018 and November 2019, respectively.

Under various contractual agreements, nominee shareholders of the VIEs are required to transfer their ownership in these entities to Xie Luo when permitted by PRC laws and regulations or to designees of Xie Luo at any time for the amount of loans outstanding. All voting rights of the VIEs are assigned to Xie Luo and Xie Luo has the right to appoint all directors and senior management personnel of the VIEs. The Company has also entered into exclusive service agreements with the VIEs, under which Xie Luo provides business consulting and other services to the VIEs with service fee equivalent to 100% of The VIEs’ net profits. In addition, nominee shareholders of the VIEs have pledged their shares in the VIEs as collateral for the non-payment of loans or for the technical and other services fees due to Xie Luo.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Principles of consolidation (Continued)***

The principal terms of the agreements entered into amongst the VIEs, their respective shareholders and Xie Luo are further described below.

Loan Agreement. Pursuant to the Loan Agreement, Xie Luo agrees to lend interest free loans to nominee shareholders and the VIEs with sole purpose for payment of paid-in capital of the VIEs and their daily operation, respectively. The amount of loan depends on the written loan granting notice. Pursuant to the Loan Agreement, the term of loans is 10 years, nominee shareholders and the VIEs should repay the loan, and any other payables by means that is acceptable to Xie Luo on expiry date. These loans were eliminated with the capital and payables of the VIEs during consolidation.

Exclusive Services Agreement. Pursuant to the Exclusive Services Agreement, Xie Luo has the exclusive right to provide business consulting services, including marketing, operation, business management, training and other customized services, to the VIEs. Without Xie Luo's prior written consent, the VIEs agree not to accept the same or any similar services provided by any third party. The VIEs agree to pay service fees on a yearly basis or at any other time when Xie Luo considers it is necessary and at an amount equivalent to 100% of The VIEs' net profits as confirmed by Xie Luo. Pursuant to the Exclusive Services Agreement, Xie Luo agrees to absorb all the profits and losses of the VIEs, and will provide financial support when the VIEs come across operation loss or serious business difficulties. The term of this agreement is 10 years, and the agreement will be automatically extended upon the expiry.

Exclusive Purchase Option Agreement. Pursuant to the Exclusive Purchase Option Agreement, the nominee shareholders of the VIEs have irrevocably granted Xie Luo an exclusive option to purchase, or have its designated person(s) to purchase, at its discretion, to the extent permitted under PRC law, all or part of such shareholders' equity interests in the VIEs. The purchase price should equal to the minimum price required by PRC law or such other price as may be agreed by the parties in writing. Without Xie Luo's prior written consent, the nominee shareholders of the VIEs have agreed that the VIEs shall not amend the articles of association, increase or decrease the registered capital, sell or otherwise dispose of their assets or beneficial interest, provide any loans, or distribute dividends to the shareholders, and the shareholders shall not offer to sell, transfer, gift, pledge, or otherwise dispose all or part of their equity interests in the VIEs. These agreements will remain effective until all equity interests of the VIEs have been transferred or assigned to Xie Luo or its designated person(s).

Powers of Attorney. Pursuant to the Powers of Attorney, each nominee shareholder of the VIEs has irrevocably entrust all their rights to Xie Luo or its designated person(s). All shareholder rights, including, but not limited to, voting on all matters of the VIEs, signing on all documents of the VIEs that require shareholder approval, appointing directors, executive officers and major financial personnel, deciding to carry out liquidation of the VIEs, keeping the company seal, financial seal and other materials, items or information which can control the VIEs' daily operation and disposing of all or part of the shareholder's equity interest in the VIEs. Xie Luo is also entitled to appoint and change the trustee to act as exclusive attorney in fact of the shareholders of the VIEs with prior notice to such shareholders. Pursuant to the Powers of Attorney, Xie Luo has rights to know the key information of the VIEs, including but not limited to, operating status, clients' information, employee data and financial information. The power of attorney will remain in force until the nominee shareholders have transferred all of their equity interest to Xie Luo or its designated person(s), or Xie Luo provides written consent to terminate the powers of attorney.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of consolidation (Continued)

Equity Interest Pledge Agreement. Pursuant to the Equity Interest Pledge Agreement, nominee shareholders of the VIEs have pledged all of their equity interest in the VIEs to Xie Luo to guarantee the fulfillment of obligations under the contractual agreements, which include the Loan Agreement, the Powers of Attorney, Exclusive Option Agreement, Exclusive Service agreement, Intellectual Property License and Transfer Agreement, and Equity Interest Pledge Agreement. If any of contractual obligations are breached under these agreements, Xie Luo, as pledgee, will be entitled the rights to dispose all or part of the pledged equity interests of any nominee shareholders, even the one does not breach the contractual obligations. The prior rights are given to compensate the service fee, compensation of breaching contracts (if any), interest, compensatory payment, etc, from the proceeds of pledged equity interest disposal. Each of the shareholders of the VIEs agrees that, during the term of the equity interest pledge agreements, he or she will not dispose of the pledged equity interests or create or allow creation of any encumbrance on the pledged equity interests without the prior written consent of Xie Luo. The Equity Interest Pledge Agreements remain effective until all the contractual arrangements are terminated, the VIEs and the shareholders discharge all their obligations under the contractual arrangements, or Xie Luo obtains all of equity interests of the VIEs under the terms of Exclusive Option Agreement.

Intellectual Property License and Transfer Agreement. Pursuant to the Intellectual Property License and Transfer Agreement, the VIEs have irrevocably granted Xie Luo an exclusive right to acquire any or all of the intellectual property rights owned by the VIEs. Before acquiring intellectual property of the VIEs, Xie Luo has an exclusive license to use for free any or all of the intellectual property rights owned by the VIEs from time to time. Without Xie Luo's prior written consent, the VIEs agree not to transfer or license any intellectual property rights to any third parties. In addition, the VIEs has granted Xie Luo the right to purchase any or all of the intellectual property rights of the VIEs at the lowest price permitted under PRC law.

The Company believes that the contractual arrangements among its wholly owned subsidiary, the VIEs and its shareholders are in compliance with the current PRC laws and legally enforceable. However, uncertainties in the interpretation and enforcement of the PRC laws, regulations and policies could limit the Company's ability to enforce these contractual arrangements. As a result, the Company may be unable to consolidate the VIEs and its subsidiary in the consolidated financial statements. The Company's ability to control its VIEs also depends on the authorization by the shareholders of the VIEs to exercise voting rights on all matters requiring shareholders' approval in the VIEs. The Company believes that the agreements on authorization to exercise shareholder's voting power are legally enforceable. In addition, if the legal structure and contractual arrangements with its VIEs were found to be in violation of any future PRC laws and regulations, the Company may be subject to fines or other actions. The Company believes the possibility that it will no longer be able to control and consolidate its VIEs will occur as a result of the aforementioned risks and uncertainties is remote.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of consolidation (Continued)

In 2019, the Group invested in investment funds which it served as asset manager and subscribed the majority of equity interest. As the Group has a controlling financial interest in the investment funds as of December 31, 2019, the Group consolidated the investment funds as the primary beneficiary.

The following table sets forth the assets, liabilities, results of operations and changes in cash and cash equivalents of the VIEs and their subsidiaries taken as a whole, which were included in the Group's consolidated balance sheets and statements of comprehensive income/(loss) before the elimination of intercompany transactions with non-VIE subsidiaries of the Group:

	As of December 31,		
	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Total Assets	1,283,378	1,805,066	259,282
Total Liabilities	336,147	598,691	85,997

	Year ended December 31,		
	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Net Revenues	197,208	666,112	95,681
Net Expenses	(231,285)	(456,501)	(65,572)

	Year ended December 31,		
	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Cash flows from operating activities	828	431,660	62,004
Cash flows from investing activities	(959,492)	(489,998)	(70,384)
Cash flows from financing activities	970,937	62,612	8,994
Net increase in cash and restricted cash	12,273	4,274	614

As of December 31, 2019, the total assets for the consolidated VIEs were RMB 1,805.07 million, which mainly comprised of RMB 1,516.51 million in cash and investment securities, and RMB 288.56 million (among which RMB 14.65 million is eliminated with non-VIE subsidiaries of the Group) in the remaining balances include accounts receivable, other assets, intangible assets, equipment and leasehold improvement, deferred tax assets and goodwill. As of December 31, 2019, total liabilities for the consolidated VIEs were RMB 598.69 million, which mainly included RMB 412.58 million (among which RMB 317.76 million is eliminated with non-VIE subsidiaries of the Group) in accounts payable, other liabilities and accrued employee benefits, RMB 34.86 million in income taxes payable, RMB 42.18 million in deferred tax liabilities and RMB109.08 million in deferred revenues.

As of December 31, 2018, the total assets for the consolidated VIEs were RMB 1,283.38 million, which mainly comprised of RMB 1,004.20 million in cash and investment securities, and RMB 279.18 million (among which RMB 14.64 million is eliminated with non-VIE subsidiaries of the Group) in the remaining balances include accounts receivable, other assets, intangible assets, equipment and leasehold improvement, deferred tax assets and goodwill. As of December 31, 2018, total liabilities for the consolidated VIEs were RMB 336.15 million, which mainly included RMB 242.05 million (among which RMB 202.18 million is eliminated with non-VIE subsidiaries of

the Group) in accounts payable, other liabilities and accrued employee benefits, RMB 11.04 million in income taxes payable, RMB 38.29 million in deferred tax liabilities and RMB 44.77 million in deferred revenues.

Under the contractual arrangements with the VIEs, the Company through its wholly owned subsidiary, Xie Luo, has the power to direct activities of the VIEs and can have assets transferred freely out of the VIEs without restrictions. Therefore, the Company considers that there is no asset of VIEs that can only be used to settle obligations of the respective VIEs, except for registered capital and PRC statutory reserves of VIEs.

Since the VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the VIEs do not have recourse to the general credit of the Company or Xie Luo.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Currency translation for financial statements presentation***

The accompanying consolidated financial statements are reported in Renminbi (“RMB”).

Yintech’s functional currency is USD, and the reporting currency is RMB. Yintech’s subsidiaries determine their functional currencies based on the criteria of FASB ASC 830, *Foreign Currency Matters*. The consolidated financial statements are translated into RMB using the exchange rate at the balance sheet date for assets and liabilities, and the average exchange rate in the period for revenues, expenses, gains and losses. Any translation gains or losses are recorded in other comprehensive income / (loss).

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the balance sheet date. Exchange gains and losses are included in earnings as a component of other revenues.

Translations of amounts from RMB into USD for the convenience of the reader have been calculated at the exchange rate of RMB 6.9618 per USD 1.00 on December 31, 2019, the last business day for the year ended December 31, 2019, as published on the website of the United States Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at such rate. The USD convenience translation is not required under U.S. GAAP and all USD convenience translation amounts in the accompanying consolidated financial statements are unaudited.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Group evaluates its estimates and judgments including those related to: the fair value of stock based compensation; the useful lives and recoverability of equipment and leasehold improvements and intangible assets; impairment of goodwill and intangible assets, the purchase price allocation and fair value of non-controlling interests with respect to business combinations; the fair value of investments; the carrying value of receivables from customers; the determination of the allowance for doubtful accounts; the liabilities for unrecognized tax benefits; indefinitely reinvested earnings; and the valuation allowance for deferred tax assets.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Derivative financial instruments***

The Group recognizes all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values.

In the normal course of business and as a comprehensive member of the Tianjin and Guangdong Exchanges, the Group enters into transactions in derivative financial instruments with customers. As a comprehensive member of the Tianjin and Guangdong Exchanges, the Group is required to serve as the counterparty of the customer trading of precious metals through exchange-traded spot commodity contracts. The Tianjin and Guangdong Exchanges quote trading prices of the spot commodity contracts with reference to the prices from relevant international and domestic spot commodities markets. The Group does not apply hedge accounting, as all derivative financial instruments are held for trading purposes and therefore recorded at fair value with changes reflected in earnings. Contracts with customers are traded either as long or short positions and the notional amount and fair values of the contracts in a loss position are not offset against notional amount and the fair value of contracts in a gain position. Gains and losses (realized and unrealized) on all derivative financial instruments are shown as a component of trading gains / (losses), net.

In accordance with the Tianjin and Guangdong Exchanges' requirements, the Group's customers must meet, at a minimum, the deposit requirements established by the Tianjin and Guangdong Exchanges at which the spot commodity contracts are traded. Therefore, exchange traded spot commodity contracts generally do not give rise to significant counterparty exposure due to the cash settlement procedures for daily market movements ("variation margin") and the deposit requirements of the Tianjin and Guangdong Exchanges. The variation margin payments represent the daily settlement of the outstanding exposure of the derivative contract. Likewise, as the counterparty to customer trades, the Group is also required to place deposits with custodian banks of the Tianjin and Guangdong Exchanges to meet the minimum deposit requirements. Such amount placed at banks to meet the minimum deposit requirements is included in deposits with clearing organizations and restricted from withdrawal.

In 2017, the Group traded commodity futures contracts on the Shanghai Futures Exchange to manage its exposure on spot commodity contracts and physical trading of raw silver. Commodity futures contracts are recorded at fair value with changes reflected in earnings. Gains and losses from these contracts are recorded in trading gains / (losses), net. At the end of December 31, 2017, 2018 and 2019, the Group has no commodity futures contracts outstanding.

In 2017, with the termination of trading on the Guangdong and the suspension of trading on the Tianjin Exchange, there will be no more gains or losses arising from spot commodity contracts or the risk and return transfer agreements.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Restricted Cash

Cash represents cash on hand and demand deposits placed with banks or other financial institutions. Restricted cash represents entrusted bank balances held on behalf of customers, which is the fund that Forthright Securities receives from customers for purpose of buying or selling securities on their behalf. The fund is deposited at designated entrusted bank accounts.

The following table reconciles cash and restricted cash as reported on the consolidated balance sheets as of December 31, 2018 and 2019, to the amounts presented in the consolidated statements of cash flows:

	As of December 31,		
	2018 RMB	2019 RMB	2019 (Note2) USD (unaudited)
Cash	257,789	209,507	30,094
Restricted cash	73,226	89,157	12,807
Total	331,015	298,664	42,901

Investment securities

Investment securities include equity securities, debt securities and reverse repurchase agreements. Equity securities consist of listed equity securities, wealth management products, private equity funds and other equity securities.

Listed equity securities comprise of listed stocks, funds and tradable convertible bonds. All of which have readily determinable fair values and are measured at fair value with change recognized in trading gains/(losses).

Wealth management products issued by banks and private equity fund investments managed by licensed asset management companies are recorded at fair value. These equity securities are recognized as available-for-sale investments (AFS investments) or trading investments. Pursuant to the adoption of ASU 2016-01, any changes in fair value are recognized in trading gains/(losses).

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Other equity securities represent those without a readily determinable fair value that does not qualify for the practical expedient to estimate fair value in accordance with ASC 820-10-35-59. The Group elects to use the measurement alternative to measure such investments at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. For each reporting period, the Group makes a qualitative assessment considering impairment indicators to evaluate whether the investment is impaired. Impairment indicators that the Group considers include, but are not limited to, the following: 1) a significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee, 2) a significant adverse change in the regulatory, economic, or technological environment of the investee, 3) a significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates, 4) a bona fide offer to purchase, an offer by the investee to sell, or a completed auction process for the same or similar investment for an amount less than the carrying amount of that investment, and 5) factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants.

Debt securities represent listed corporate bonds and unlisted subordinated corporate bonds. Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with changes recognized in trading gains/(losses). Debt securities that do not meet the criteria of held-to-maturity or trading securities are classified as available-for-sale debt securities (AFS debt securities), and are measured at fair value. Unrealized holding gains and losses from fair value changes, net of the related tax effect, are excluded from earnings and are reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of AFS debt securities are determined on a specific identification basis and are recognized in trading gains/(losses). An impairment loss on the AFS debt securities is recognized in earnings when the decline in value is determined to be other-than-temporary.

Reverse repurchase agreements are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts.

Interest and investment income are recognized when earned.

Equity method investments

For an investee company over which the Group has the ability to exercise significant influence, but does not have a controlling interest, the Group accounts for the investment under the equity method. Significant influence is generally considered to exist when the Group has an ownership interest in the voting stock of the investee between 20% and 50%. Other factors, such as representation on the investee's board of directors, voting rights and the impact of commercial arrangements are also considered in determining whether the equity method of accounting is appropriate.

Under the equity method of accounting, the investee company's accounts are not reflected within the Group's consolidated balance sheets and statements of comprehensive income/(loss); however, the Group's share of the earnings or losses of the investee company is reflected in the consolidated statements of comprehensive income/(loss).

An impairment charge is recorded if the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than-temporary. No impairment loss on its equity method investments was recognized during the years ended December 31, 2018 and 2019.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Revenue recognition***

On January 1, 2018, the Group adopted ASC 606 “Revenue from Contracts with Customers” (“ASC 606”) and applied the cumulative effect method. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and reported under the accounting standards in effect for the periods presented.

According to ASC 606, revenues are recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Group expects to be entitled to in exchange for those goods or services. The Group determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligation in the contract;
- Determination of the transaction price, including the constraint on variable consideration;
- Allocation of the transaction price to the performance obligation in the contracts; and
- Recognition of revenue when (or as) the Group satisfies a performance obligation.

The following is a description of the accounting policy for the major revenue generating activities of the Group.

(i) Commissions and fees

The Group earns trading commissions, spread fees and overnight fees from its operation on Tianjin and Guangdong Exchanges, which are settled on a daily basis. The Group earns trading commissions from its operation on Shanghai Exchange and the Futures Commodity Exchanges, which are settled on a monthly basis. Cash rebates on trading commissions and overnight fees offered by the Group to its customers are recorded as a reduction of revenue.

The Group earns securities brokerage fees from brokerage service for its customers for executing and/or clearing transactions. Securities brokerage fees are recognized on a transactional basis.

The Group earns asset management fees from fund management services. Management fees are computed as a percentage of the fund net asset value, calculated daily. Revenue is recognized on a daily basis over the contract term.

The Group provides securities advisory services, offering various types of training programs to individuals. Such programs normally last for several months. The revenues are recognized during the programs period on a straight-line, time-elapsed basis.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(ii) Trading gains / (losses)**

Trading gains / (losses) consist of realized and unrealized gains and losses from exchange-traded spot commodity contracts, commodity futures contracts and risk and return transfer agreements, the realized gains and losses from trading of physical commodities, realized and unrealized gains and losses from equity securities investments pursuant to the adoption of ASU 2016-01, and realized gains and losses from the sale of AFS investments prior to the adoption of ASU 2016-01, all presented on a net basis. Changes in fair value in relation to spot commodity contracts, commodity futures contracts and risk and return transfer agreements are recorded in trading gains / (losses), net on a daily basis as disclosed in the accounting policy of derivative financial instruments. Trading gains / (losses) on physical commodities are recognized when title passes and measured by the difference between the acquisition cost of the commodity and the cash received or receivable.

(iii) Interest and investment income

Interest income is recognized at the effective interest rate. Investment income is recognized when earned.

(iv) Other revenues

Other revenues primarily consist of gain on disposal of subsidiaries, income from sales of application services, sales of silver products, government grants, awards from the Exchanges and value-added-tax ("VAT") refund.

Gain on disposal of subsidiaries are recognized when the substantive control over the subsidiaries are transferred and the disposal consideration is received or there is a reasonable assurance that they will be received.

Sales of application services comprise the sales of a license subscription bundled with customer support service during the license period. Revenue from sales of application services are amortized over the term of the arrangement.

Sales of silver products are recognized when control of goods are transferred to customers and consideration is received or there is a reasonable assurance that they will be received. Revenue excludes value added tax.

Government grants are recognized when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are deducted in reporting the related expenses on a systematic basis in the same periods in which the expenses are incurred.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Equipment and leasehold improvements***

Equipment and leasehold improvements are stated at cost. Depreciation is provided on a straight-line basis using estimated useful lives of three to five years. Leasehold improvements are amortized over the shorter of the economic useful life of the improvement or the term of the lease.

Leases

On January 1, 2019, the Group adopted ASU No. 2016-02, Leases (“ASC 842”) and subsequent amendments by using the modified retrospective method and did not restate the comparable periods.

The Group determines if an arrangement is or contains a lease at contract inception. For operating leases, the Group recognizes an ROU asset and a lease liability based on the present value of the lease payments over the lease term on the consolidated balance sheets at commencement date. As the rate implicit in the lease cannot be readily determined, the Group uses the incremental borrowing rate at the lease commencement date in determining the imputed interest and present value of lease payments. The incremental borrowing rate was determined using a portfolio approach based on the rate of interest that the Group would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms.

The Group has elected not to recognize ROU assets and lease liabilities for short-term leases of properties that have a lease term of 12 months or less. The Group recognizes the lease payments associated with its short-term property leases as an expense on a straight-line basis over the lease term.

Advertising and promotion expenses

Advertising expenses represent expenses for placing advertisements on television, radio and newspaper, as well as on Internet websites and search engines. Promotion expenses represent commissions paid to sales agents for bringing in new customers. Advertising and promotion cost are expensed as incurred.

Defined contribution plan

Pursuant to relevant PRC regulations, the Group is required to make contributions to various defined contribution plans organized by municipal and provincial PRC governments. The contributions are made for each PRC employee at statutory rates as determined by local social security bureau. Contributions to the defined contribution plans are charged to the consolidated statements of income. The Group has no obligations for payment of pension benefits associated with the plans beyond the amount it is required to contribute.

Stock based compensation

The Group measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the cost over the period the employee is required to provide service in exchange for the award, which generally is the vesting period. The Group recognizes compensation cost for an award with only service conditions that has a graded vesting schedule on a straight-line basis over the requisite service period for the entire award, net of estimated forfeitures, provided that the cumulative amount of compensation cost recognized at any date at least equals to the portion of the grant-date value of such award that is vested at that date. Forfeiture rates are estimated based on historical and future expectations of employee turnover rates. Stock compensation expense, when recognized, is recorded as expense with the corresponding entry to additional paid-in capital.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Income taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided to reduce the carrying amount of deferred tax assets to the amount considered more likely than not to be realized. The Group recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Group presents any interest or penalties related to an underpayment of income taxes as part of its income tax expense.

Provisions and contingent liabilities

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Goodwill and Intangible Assets

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Indefinite-lived intangible assets are assets that are not amortized as there is no foreseeable limit to cash flows generated from them. Intangible assets with finite useful lives are amortized over their estimated useful lives in the method that reflect the pattern in which the economic benefits of the intangible assets are consumed.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS,
(Amounts in thousands)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Impairment of Goodwill***

The Group assesses goodwill for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events.

The Group has the option to assess qualitative factors first to determine whether it is necessary to perform the two-step test. If the Group believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative impairment test described above is required. Otherwise, no further testing is required. In the qualitative assessment, the Group considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit to the fair value of the reporting unit based on either quoted market prices of the ordinary shares or estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and the Group is not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then the Group must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss.

Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Group first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Treasury Stock

The Group accounts for treasury stock using the cost method. Under this method, the cost incurred to purchase the shares is recorded in the treasury stock account on the consolidated balance sheets. At retirement, the ordinary shares account is charged only for the aggregate par value of the shares. The excess of the acquisition cost of treasury stocks over the aggregate par value is allocated between additional paid-in capital (up to the amount credited to the additional paid-in capital upon original issuance of the shares) and retained earnings.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Group has one single operating and reportable segment (Note 31 Segment information).

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Recently Issued Accounting Standards***

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize most leases on the balance sheet and disclose key information about leasing arrangements. Topic 842 establishes a ROU model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The FASB subsequently issued amendments to clarify the implementation guidance. The Group adopted these standards on January 1, 2019, using a modified retrospective method for leases that exist at, or are entered into after, January 1, 2019, and has not restated comparative periods presented in the Consolidated Financial Statements. The Group has elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases or (3) the accounting for initial direct costs that were previously capitalized. Upon the adoption of ASC 842, the Group recognized ROU assets of RMB 97.61 million and lease liabilities of RMB 92.47 million in the consolidated balance sheet.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. The guidance replaces the incurred loss impairment methodology with an expected credit loss model for which a Group recognizes an allowance based on the estimate of expected credit loss. This ASU update on the measurement of credit losses for certain financial assets measured at amortized cost and available-for-sale debt securities. For financial assets measured at amortized cost, this update requires an entity to (1) estimate its lifetime expected credit losses upon recognition of the financial assets and establish an allowance to present the net amount expected to be collected, (2) recognize this allowance and changes in the allowance during subsequent periods through net income and (3) consider relevant information about past events, current conditions and reasonable and supportable forecasts in assessing the lifetime expected credit losses. For available-for-sale debt securities, this update made several targeted amendments to the existing other-than-temporary impairment model, including (1) requiring disclosure of the allowance for credit losses, (2) allowing reversals of the previously recognized credit losses until the entity has the intent to sell, is more-likely-than-not required to sell the securities or the maturity of the securities, (3) limiting impairment to the difference between the amortized cost basis and fair value and (4) not allowing entities to consider the length of time that fair value has been less than amortized cost as a factor in evaluating whether a credit loss exists. For public companies, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The group adopted the amendments in this ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The adoption does not have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. The changes are effective for public business entities that are SEC filers, for annual and interim periods in fiscal years beginning after December 15, 2019. The Group will adopt this new guidance on January 1, 2020 and does not expect the adoption to have material impact on the consolidated financial statements.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Recently Issued Accounting Standards (continued)***

In June 2018, the FASB issued ASU No. 2018-07, “Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting” (“ASU 2018-07”), to simplify the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. Under the guidance, the measurement of equity-classified nonemployee awards will be fixed at the grant date, which may lower their cost and reduce volatility in the income statement. The guidance is effective for public business entities in annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted, including in an interim period. The Group adopted ASU 2018-07 on January 1, 2019 and the adoption had no material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”), which eliminates, adds and modifies certain disclosure requirements for fair value measurement. Under the guidance, public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for the changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements. The amendments removed the disclosure requirements for transfers between Levels 1 and 2 of the fair value hierarchy, the policy for timing of transfers between levels of the fair value hierarchy and the valuation processes for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Group will adopt ASU 2018-13 on January 1, 2020, and does not expect the adoption to have material impact on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Tax (Topic 740), Simplifying the Accounting for Income Taxes (“ASU 2019-12”), which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Topic 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The guidance also simplifies aspects of the accounting for taxes partially based on income and the accounting for enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance is effective for public business entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. The Group is in the process of evaluating the impact of ASU 2019-12 on the consolidated financial statements.

In January 2020, the FASB issued ASU No. 2020-01, Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The ASU clarifies that if as a result of an observable transaction, an equity investment under the measurement alternative is transitioned into equity method and vice versa, an equity method investment is transitioned into measurement alternative, the investment is to be remeasured immediately before and after the transaction, respectively. The ASU also clarifies that certain forward contracts or purchased options to acquire equity securities that are not deemed to be derivatives or in-substance common stock will generally be measured using the fair value principles of ASC 321 before settlement or exercise, and that an entity should not be considering how it will account for the resulting investments upon eventual settlement or exercise. ASU No. 2020-01 is to be applied prospectively, effective January 1, 2021, with early adoption permitted in an interim period. The Group is in the process of evaluating the impact of ASU 2020-01 on the consolidated financial statements.

In addition to those described above, the FASB has issued other accounting standards, none of which are expected to have a material impact on the Group’s consolidated financial statements when adopted.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**3. FAIR VALUE MEASUREMENTS*****Fair Value Hierarchy***

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a hierarchy of fair value inputs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- *Level 1:* Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- *Level 2:* Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly.
- *Level 3:* Unobservable inputs for the asset or liability.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair Value Measurements

A description of the valuation techniques applied to the Group's major categories of assets and liabilities measured at fair value on a recurring basis as follows.

Wealth management products issued by banks and trust investments issued by licensed trust companies, which are valued based on prices per units quoted by issuers. They are categorized in level 2 of the fair value hierarchy.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

3. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Measurements (Continued)

Fund investments that do not have a readily determinable fair value invested in funds are valued using net asset value (“NAV”) that is based on the underlying investments of the fund in accordance with ASC 820-10-35-59. They are not categorized in the fair value hierarchy and are disclosed as a separate item.

Listed equity securities and listed corporate bonds that are actively traded are valued based on quoted prices from the exchanges and are categorized in level 1 of the fair value hierarchy.

Unlisted subordinated corporate bonds do not have a readily determinable fair value and are categorized in level 3 of the fair value hierarchy.

The following table presents the Group’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis.

Fair Value Measurements on a Recurring Basis

At December 31, 2019

	<u>Level 1</u> <u>RMB</u>	<u>Level 2</u> <u>RMB</u>	<u>Level 3</u> <u>RMB</u>	<u>Total</u> <u>RMB</u>
Assets				
Equity securities				
- Listed equity securities	922,808	—	—	922,808
- Wealth management products	—	443,008	—	443,008
- Private equity funds measured at NAV*	—	—	—	184,596
Debt securities				
- Listed corporate bonds	179,365	—	—	179,365
- Unlisted subordinated corporate bonds	—	—	30,000	30,000
Total	<u>1,102,173</u>	<u>443,008</u>	<u>30,000</u>	<u>1,759,777</u>
Liabilities				
Other liabilities				
- Payable to other investors of consolidated funds measured at NAV*	—	—	—	6,578
Amount due to related parties				
- Payable to related parties of consolidated funds measured at NAV*	—	—	—	4,426
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,004</u>

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

3. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Measurements (Continued)

At December 31, 2018

	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
Assets				
Equity securities				
- Listed equity securities	635,017	—	—	635,017
- Wealth management products	—	149,844	—	149,844
- Private equity funds measured at NAV*	—	—	—	157,476
Total	635,017	149,844	—	942,337
Liabilities				
Other liabilities				
- Payable to other investors of consolidated funds measured at NAV*	—	—	—	12,745
Total	—	—	—	12,745

* Financial assets and liabilities that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

There were no transfers between level 1 and level 2 during the year.

Reconciliations of assets categorized within Level 3 under the fair value hierarchy are as follow:

Unlisted subordinated corporate bonds

	Amounts RMB
Balance at December 31, 2018	—
Purchases	30,000
Balance at December 31, 2019	30,000

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands)

3. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the carrying values and estimated fair values of financial assets and liabilities, excluding financial instruments that are carried at fair value on a recurring basis, and information is provided on their classification within the fair value hierarchy.

At December 31, 2019	Total carrying value RMB	Level 1 RMB	Level 2 RMB	Level 3 RMB	Estimated fair value RMB
Assets					
Cash	209,507	209,507	—	—	209,507
Entrusted bank balances held on behalf of customers	89,157	89,157	—	—	89,157
Deposits with clearing organizations	20,330	20,330	—	—	20,330
Reverse repurchase agreement	136,097	—	136,097	—	136,097
Other financial assets	347,295	—	347,295	—	347,295
Total	802,386	318,994	483,392	—	802,386
Liabilities					
Other financial liabilities	121,130	—	121,130	—	121,130
Total	121,130	—	121,130	—	121,130
At December 31, 2018	carrying value RMB	Level 1 RMB	Level 2 RMB	Level 3 RMB	Estimated fair value RMB
Assets					
Cash	257,789	257,789	—	—	257,789
Entrusted bank balances held on behalf of customers	73,226	73,226	—	—	73,226
Deposits with clearing organizations	34,215	34,215	—	—	34,215
Reverse repurchase agreement	533,699	—	533,699	—	533,699
Other financial assets	326,178	—	326,178	—	326,178
Total	1,225,107	365,230	859,877	—	1,225,107
Liabilities					
Other financial liabilities	119,469	—	119,469	—	119,469
Total	119,469	—	119,469	—	119,469

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

4. ACQUISITIONS

(1) Acquisition of Fu Dong Group in 2018

On January 31, 2018, the Group acquired 100% of the shares of Fu Dong and its 90% owned subsidiary Xin Hui Tong (collectively, the ‘Fu Dong Group’). The operation results of Fu Dong Group have been included in the consolidated financial statements since the acquisition date. Fu Dong Group mainly engages in providing securities advisory services through its subsidiary Xin Hui Tong, in which it holds 90% of the equity interest. Xin Hui Tong holds the securities advisory license issued by China Securities Regulatory Commission. A cash consideration of RMB 75 million has been transferred to acquire the business. The following table summarizes the consideration paid for Fu Dong Group and the aggregate fair values of the assets acquired and liabilities assumed as of the date of acquisition.

Consideration	
Cash	75,000
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash	2,768
Intangible asset	84,405
Equipment and leasehold improvements	3
Other assets	18
Income tax payable	(21)
Deferred tax liability	(21,101)
Other liabilities	(3,460)
Total identifiable net assets acquired	62,612
Goodwill	21,101
Non-controlling interests	(8,713)
Total	75,000

The Group has completed valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed, resulting from which the amount of goodwill was determined and recognized as of the acquisition date. The acquired intangible asset includes a securities advisory license of RMB 84 million (indefinite-lived intangible asset). As a result of the acquisition, the Group expected to complement its existing businesses and achieve synergies. The goodwill arising from the acquisition is primarily attributable to the synergies and economy of scale, and is not amortizable for income tax purposes.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

4. ACQUISITIONS (CONTINUED)

(2) Acquisition of OTS Group in 2018

On December 4, 2018, the Group acquired 100% of the shares of OTS Cayman and its subsidiary (collectively, the ‘OTS Group’). The operation results of OTS Group have been included in the consolidated financial statements since the acquisition date. OTS Group mainly engages in providing asset management services through its wholly-owned subsidiary, OTS HK, a Type 4 (Advising on Securities) and Type 9 (Asset Management) licensed entity incorporated in Hong Kong. A cash consideration of RMB 6.8 million has been transferred to acquire the business. The following table summarizes the consideration paid for OTS Group and the aggregate fair values of the assets acquired and liabilities assumed as of the date of acquisition.

Consideration	
Cash	6,834
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash	214
Accounts receivable	122
Equipment and leasehold improvements	27
Other assets	20
Accounts payable	(30)
Other liabilities	(438)
Total identifiable net assets acquired	(85)
Goodwill	6,919
Total	6,834

The Group has completed valuations necessary to assess the fair values of the assets acquired and liabilities assumed, resulting from which the amount of goodwill was determined and recognized as of the acquisition date.

As a result of the acquisition, the Group is expected to expand its business to overseas securities services and other investment services. It also expects to reduce costs through economy of scale. The goodwill arising from the acquisition is primarily attributable to the synergies and economy of scale, and is not amortizable for income tax purposes.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

4. ACQUISITIONS (CONTINUED)

(3) Acquisition of Forthright Group in 2017

On December 29, 2017, the Group acquired 100% of the shares of Forthright Financial Holdings Company Limited and its subsidiaries (collectively, the “Forthright Group”) from one of the Company’s Founding Shareholders. The operation results of Forthright Group have been included in the consolidated financial statements since acquisition date. Forthright Group mainly engages in providing securities brokerage and advisory services through its wholly-owned subsidiary, Forthright Securities, a Type 1 and Type 4 licensed entity incorporated in Hong Kong. A cash consideration of RMB 12.81 million has been transferred to acquire the business. The following table summarizes the consideration paid for Forthright Group and the aggregate fair values of the assets acquired and liabilities assumed as of the date of acquisition.

Consideration	
Cash	12,806
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash	58,380
Entrusted bank balances held on behalf of customers	150,452
Equipment and leasehold improvements	1,488
Intangible assets	416
Accounts receivable	9,600
Other assets	4,578
Accounts payable	(149,872)
Accrued employee benefits	(2,649)
Other liabilities	(76,147)
Total identifiable net assets acquired	(3,754)
Goodwill	16,560
Total	12,806

The Group has completed valuations necessary to assess the fair values of the tangible and intangible assets, acquired and liabilities assumed, resulting from which the amount of goodwill was determined and recognized as of the acquisition date. The acquired intangible asset is the securities trading right in the Stock Exchange of Hong Kong, which has indefinite useful life.

As a result of the acquisition, the Group is expected to expand its business to overseas securities services and other investment services. It also expects to reduce costs through economy of scale. The goodwill arising from the acquisition is primarily attributable to the synergies and economy of scale, and is not amortizable for income tax purpose.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

4. ACQUISITIONS (CONTINUED)

(4) Acquisition of Sina Shi Jin (formerly known as Sina Cai Dao) in 2017

On July 31, 2017, the Group acquired 51% of the shares of Sina Shi Jin, formerly known as Sina Cai Dao. The operation results of Sina Shi Jin have been included in the consolidated financial statements since acquisition date. Sina Shi Jin mainly engages in providing securities advisory services and securities information platform services. A cash consideration of RMB 18.49 million has been transferred to acquire the business. The following table summarizes the consideration paid for Sina Shi Jin and the aggregate fair values of the assets acquired and liabilities assumed as of the date of acquisition.

Consideration	
Cash	18,488
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash	8,908
Equipment and leasehold improvements	96
Deferred tax assets	2,446
Short-term investments	20,000
Other assets	7
Accounts payable	(2,621)
Accrued employee benefits	(379)
Other liabilities	(34)
Total identifiable net assets acquired	28,423
Non-controlling interest	(17,762)
Goodwill	7,827
Total	18,488

The Group has completed valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed, resulting from which the amount of goodwill was determined and recognized as of the acquisition date.

As a result of the acquisition, the Group is expected to expand our services to individual investors seeking investments in securities, wealth management, futures and gold products. It also expects to reduce costs through economy of scale. The goodwill arising from the acquisition is primarily attributable to the synergies and economy of scale, and is not amortizable for income tax purpose.

(5) Other acquisitions in 2017

The Group also completed other business combinations during 2017, including Forthright International, Chun Da, Yuan Shi, Tian Xi, Xu Liang and Bo Zhong. The results of the acquired entities' operations have been included in the Group's consolidated financial statements since their respective dates of acquisition.

The Group completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and the fair value of non-controlling interests, resulting from which the amount of goodwill was determined and recognized as of the respective acquisition dates. The acquired intangible assets consist mainly the securities investment advisory license of RMB 68.75 million (indefinite-lived intangible assets). As a result of the acquisition, the Group expected to complement its existing businesses and achieve synergies. The goodwill arising from the acquisitions is primarily attributable to the synergies and economy of scale, and is not amortizable for income tax purpose.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

4. ACQUISITIONS (CONTINUED)

(5) Other acquisitions in 2017 (Continued)

The following table summarizes the estimated aggregate fair values of the assets acquired, liabilities assumed and the non-controlling interests as of the respective dates of acquisition:

Consideration	
Cash	97,836
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash	18,508
Accounts receivable	104,096
Equipment and leasehold improvements	4,943
Intangible assets	68,745
Deferred tax assets	10,736
Short-term investments	5,000
Goodwill	766
Other assets	3,398
Accounts payable	(108,104)
Income tax payable	(4,721)
Accrued employee benefits	(735)
Other liabilities	(5,947)
Total identifiable net assets acquired	96,685
Non-controlling interest	(4,945)
Goodwill	6,096
Total	97,836

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**5. DECONSOLIDATION**

In October, 2018, the Group fully disposed one of its wholly owned subsidiaries, Shanghai Tian Xi Information Technology Co., Ltd. (“Tian Xi”). Pursuant to the arrangement, the total cash consideration was RMB 9.6 million, which was fully received as at December 31, 2019. The Group realized a disposal gain of RMB 5.8 million in the consolidated statement of comprehensive income/(loss) for the year ended December 31, 2018.

In June, 2019, the Group fully disposed one of its wholly owned subsidiaries, Shanghai Xu Liang Culture Communication Co., Ltd. (“Xu Liang”). Pursuant to the arrangement, the total cash consideration was RMB 0.14 million, which was fully received as at December 31, 2019. The Group realized a disposal gain of RMB 6 thousand in the consolidated statement of comprehensive income/(loss) for the year ended December 31, 2019.

6. CASH

Cash represents cash on hand and bank deposits. To limit exposure to credit risk relating to bank deposits, the Group primarily places bank deposits with large financial institutions in the PRC with acceptable credit rating. As of December 31, 2018 and 2019, the Group had cash balances at four and three PRC individual financial institutions, respectively, that held cash balances in excess of 10% of the Group’s total cash balances. These bank deposits collectively accounted for approximately 79% and 70% of the Group’s total cash balances as of December 31, 2018 and 2019, respectively.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

7. ENTRUSTED BANK BALANCES HELD ON BEHALF OF CUSTOMERS

As of December 31, 2019, entrusted bank balances held on behalf of customers represent cash received from customers for purpose of buying or selling securities on their behalf in connection with Forthright's securities brokerage business. The fund is deposited at designated entrusted bank accounts in seven large financial institutions in Hong Kong with acceptable credit rating.

8. INVESTMENT SECURITIES

	2018 RMB	December 31, 2019 RMB	2019 (Note2) USD Unaudited
Equity securities			
- Listed equity securities	635,017	922,808	132,553
- Wealth management products	149,844	443,008	63,634
- Private equity funds	157,476	184,596	26,516
- Others	3,073	—	—
Debt Securities	—	209,365	30,073
Reverse repurchase agreements	533,699	136,097	19,549
Total	1,479,109	1,895,874	272,325

Listed equity securities include listed stocks, funds and tradable convertible bonds. All of which have readily determinable fair values and are measured at fair value with change recognized in trading gains/(losses).

Wealth management products issued by banks mainly invest in money market and fixed income products, including government bonds, treasury bills, and other fixed income investments. Wealth management products can be redeemed upon demand.

Private equity funds are funds managed by licensed asset management companies, which do not have a readily determinable fair value, and are measured at fair value using the net asset value per share (or its equivalent) practical expedient in accordance with ASC 820-10-35-59. The underlying investments include fixed income products, commodity contracts, derivatives and other investments.

Other equity securities represent a non-interest bearing and non-secured corporate debenture which is only redeemable at the sole and absolute discretion of the issuer. The Group is not entitled to demand or call in or compel repayment of this corporate debenture. It is classified as an equity security without readily determinable fair value that does not qualify for the practical expedient to estimate fair value in accordance with ASC 820-10-35-59. No impairment or upward or downward adjustments is recorded as at December 31, 2019.

Debt securities represent listed corporate bonds and unlisted subordinated corporate bonds. The Group classifies its debt securities into either AFS investments or trading investments with unrealized gains and losses recognized in accumulated other comprehensive income and trading gains/(losses) respectively. Unlisted subordinated corporate bonds are classified as AFS investments and are measured at fair value. Unrealized holding gains and losses from fair value changes, net of the related tax effect, are excluded from earnings and are reported as a separate component of accumulated other comprehensive income until realized. No impairment loss is recorded as at December 31, 2019.

Reverse repurchase agreements represent reverse repurchase of Chinese government bonds that has an original maturity date of less than one month, which is recorded at amortized cost.

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

8. INVESTMENT SECURITIES (CONTINUED)

At December 31, 2019	Aggregate cost basis RMB	Gross unrealized holding gains/ (losses) RMB	Aggregate fair value RMB	USD (Note2) Unaudited
Listed equity securities	893,707	29,101	922,808	132,553
Wealth management products	442,994	14	443,008	63,634
Private equity funds	149,236	35,360	184,596	26,516
Debt securities	208,441	924	209,365	30,073
Total	1,694,378	65,399	1,759,777	252,776

At December 31, 2018	Aggregate cost basis RMB	Gross unrealized holding gains/ (losses) RMB	Aggregate fair value RMB	
Listed equity securities	656,154	(21,137)	635,017	
Wealth management products	149,538	306	149,844	
Private equity funds	148,100	9,376	157,476	
Total	953,792	(11,455)	942,337	

9. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

	2018 RMB	December 31, 2019 RMB	2019 (Note2) USD Unaudited
Electronic equipment	41,067	46,241	6,642
Office equipment	4,163	4,240	609
Motor vehicles	2,857	2,588	372
Leasehold improvements	43,837	45,163	6,487
Total equipment and leasehold improvements	91,924	98,232	14,110
Less: accumulated depreciation	(67,608)	(84,388)	(12,121)
Equipment and leasehold improvements, net	24,316	13,844	1,989

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands)

10. ACCOUNTS RECEIVABLE

	2018	December 31, 2019	2019
	RMB	RMB	(Note2) USD Unaudited
Fee and commission receivable	81,703	110,157	15,823
Receivables from other brokers and clients	98,527	54,234	7,790
Total	180,230	164,391	23,613

As of December 31, 2018 and 2019, receivables from other brokers and clients are related to the overseas securities brokerage service provided by Forthright Group.

11. OTHER ASSETS

Other assets consist of the following:

	2018	December 31, 2019	2019
	RMB	RMB	(Note2) USD Unaudited
Prepayment to suppliers	12,143	55,412	7,959
Silver products and raw silver	428	247	36
VAT refund receivable	11,769	1,150	165
Expense advance to employees	998	1,489	214
Receivables related to subsidiaries disposal	9,620	—	—
Staff loan	49,800	53,851	7,735
Deposit and others	70,890	113,153	16,254
Total	155,648	225,302	32,363

As of December 31, 2018, receivables related to subsidiaries disposal are the outstanding balances of disposal consideration in connection with the disposal of subsidiaries as mentioned in Note 5 — Deconsolidation. This amount has been fully received in 2019. As of December 31, 2019, no outstanding balance relates to subsidiaries disposal.

As of December 31, 2018 and 2019, the balance of staff loan relates to staff benefit plan under which non-interest bearing staff loans are granted to the Group's staff for house purchase.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**12. OTHER LIABILITIES**

Other liabilities consist of the following:

	December 31,		
	2018	2019	2019
	RMB	RMB	(Note2) USD
			Unaudited
Non-income-based taxes and surcharges payable	37,869	52,060	7,478
Deferred revenue	88,098	117,110	16,822
Accrued offering costs	842	842	121
Payable to other investors of consolidated funds	12,745	6,578	945
Accrued expenses and others	4,838	5,293	760
Total	144,392	181,883	26,126

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands)

13. GOODWILL

Goodwill consists of the following:

		December 31,	
	2018	2019	2019
	RMB	RMB	(Note2) USD
			Unaudited
Balance as of January 1	1,096,972	637,147	91,520
Gross goodwill	1,096,972	1,142,147	164,059
Accumulated impairment losses	—	(505,000)	(72,539)
Net goodwill as of January 1	1,096,972	637,147	91,520
Goodwill acquired during the year	45,206	—	—
Goodwill disposed during the year	(74)	—	—
Foreign exchange difference	43	688	99
Impairment loss	(505,000)	—	—
Balance as of December 31	637,147	637,835	91,619
Gross goodwill	1,142,147	1,142,835	164,158
Accumulated impairment losses	(505,000)	(505,000)	(72,539)
Net goodwill as of December 31	637,147	637,835	91,619

The Group accounts for its goodwill pursuant to the provisions of FASB ASC Topic 350, Intangibles - Goodwill and Other (“FASB ASC Topic 350”). In accordance with FASB ASC Topic 350, goodwill is not amortized, but rather tested for impairment annually, or earlier if an event occurs, or circumstances change that indicate the fair value of a reporting unit may be below its carrying amount.

In the fourth quarter of 2018, the Group tested goodwill for impairment at the reporting unit level. The Group historically and presently operates with one segment.

For the Gold Master reporting unit, the Group first qualitatively assessed whether it was more likely than not that the fair values of the reporting segments were less than their carrying amounts and concluded that further impairment testing is necessary. The Group then performed the first step of the two-step impairment testing, where the fair value of the reporting unit of Gold Master was compared with its carrying amount. Gold Master estimated the fair values using the income approach considering factors that included expected future cash flows, growth rates and discount rates. In the fourth quarter of 2018, the Group recognized a RMB 505 million impairment loss for goodwill relating to the acquisition of Gold Master, primarily due to (1) the operational performance of Gold Master has failed to meet its earnings forecast and the profit outlook being uncertain; (2) less fluctuation on gold price and the deterioration of the macro market environment, based on which management determined that, these conditions had a material adverse impact on Gold Master’s ability to generate revenues and net income from trading commissions.

In 2019, the Group had performed a qualitative assessment for the reporting unit of Gold Master. The Group evaluated all relevant events and circumstances, including macroeconomic conditions, industry and market considerations, overall financial performance of Gold Master, and other relevant events. The Group weighed all factors in their entirety and concluded that it was not more-likely-than-not the fair value of the reporting unit of Gold Master was less than its carrying amount, and further impairment testing on goodwill was unnecessary as of December 31, 2019.

For the other reporting units, management performed qualitative assessments and concluded that it was not more-likely-than-not the fair value of these reporting units were less than its carrying amount, and further impairment testing on goodwill were unnecessary as of December 31, 2019.

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands)

14. INTANGIBLE ASSETS

	December 31, 2019				
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Impairment loss	Net carrying amount
Amortizing intangible assets:					
Customer list	6 years	239,309	(111,677)	(78,000)	49,632
Trademark	10 years	150,637	(42,908)	(56,000)	51,729
Acquired software	10 years	17,429	(6,326)	—	11,103
Subtotal		<u>407,375</u>	<u>(160,911)</u>	<u>(134,000)</u>	<u>112,464</u>
Indefinite-lived intangible assets:					
Operating Licenses and Trading Rights		190,149	—	—	190,149
Subtotal		<u>190,149</u>	<u>—</u>	<u>—</u>	<u>190,149</u>
Total intangible assets (RMB)		<u>597,524</u>	<u>(160,911)</u>	<u>(134,000)</u>	<u>302,613</u>
Total intangible assets (USD) unaudited		<u>85,829</u>	<u>(23,113)</u>	<u>(19,248)</u>	<u>43,468</u>

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands)

14. INTANGIBLE ASSETS (CONTINUED)

	December 31, 2018				
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Impairment loss	Net carrying amount
Amortizing intangible assets:					
Customer list	6 years	239,309	(93,065)	(78,000)	68,244
Trademark	10 years	150,637	(35,149)	(56,000)	59,488
Acquired software	10 years	19,452	(7,086)	—	12,366
Subtotal		<u>409,398</u>	<u>(135,300)</u>	<u>(134,000)</u>	<u>140,098</u>
Indefinite-lived intangible assets:					
Operating Licenses and Trading Rights		190,149	—	—	190,149
Subtotal		<u>190,149</u>	<u>—</u>	<u>—</u>	<u>190,149</u>
Total intangible assets (RMB)		<u>599,547</u>	<u>(135,300)</u>	<u>(134,000)</u>	<u>330,247</u>

Aggregate amortization expense for amortizing intangible assets was RMB 56.55 million, RMB 56.52 million and RMB 28.05 million for the years ended December 31, 2017, 2018 and 2019, respectively. Estimated amortization expense for the next five years is: RMB 28.39 million in 2020, RMB 28.39 million in 2021, RMB 22.17 million in 2022, RMB 9.73 million in 2023, and RMB 9.56 million in 2024.

Separately identifiable intangible assets that have determinable lives continue to be amortized and consist primarily of customer list, trademark and acquired software as of December 31, 2019. The Company amortizes intangible assets on a straight-line basis over their estimated useful lives, which is six to ten years. The estimated life of amortized intangibles is reassessed if circumstances occur that indicate the life has changed. Other intangible assets that have indefinite useful life mainly include licenses as of December 31, 2018 and 2019. The Company evaluates indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, the asset is tested for impairment.

Gold Master's revenues for 2018 did not meet management's expectations, which indicated that the carrying value of customer list and trademark that were recognized in the acquisition of Gold Master may not be fully recoverable. As such, the Group performed an impairment test and recognized RMB 78 million impairment loss on customer list and RMB 56 million impairment loss on trademark related to the acquisition of Gold Master in 2018.

No impairment loss on intangible assets was recognised as at December 31, 2019.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**15. EQUITY METHOD INVESTMENT**

In January 2018, the Company's subsidiary, Gold Master co-founded Shanghai Xin Feng Hou Factoring Company Limited ("Xin Feng Hou") with Shanghai Pan Hou Investment Management Company ("Pan Hou"). Gold Master contributed RMB 24.5 million, representing 49% of the equity interest in Xin Feng Hou, while Pan Hou holds the remaining 51%. Xin Feng Hou mainly engages in financing for accounting receivables and other factoring arrangements.

Pursuant to the Articles of the Incorporation, voting rights are determined by the percentage of equity contribution. In order for a resolution to be passed, over 50% of votes is required. Therefore, the Group determined that it does not control Xin Feng Hou, and recognized it as an equity method investment, as opposed to be consolidated into the financial statements.

The Group would reassess the appropriateness of the accounting treatment for the investment, if there is any significant change in the percentage of equity holding interest or the mechanism for board resolutions.

The Group recognised a gain from investments of RMB 114 thousand in the consolidated statement of comprehensive income/(loss) for the year ended December 31, 2019.

16. ORDINARY SHARES AND ADDITIONAL PAID-IN CAPITAL

Holders of ordinary share are entitled to one vote per share, and to receive dividends and, upon liquidation or dissolution, are entitled to receive all assets available for distribution to shareholders. The holders have no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

16. ORDINARY SHARES AND ADDITIONAL PAID-IN CAPITAL (CONTINUED)

Yintech was established in the Cayman Islands on November 4, 2015 as an exempted company with limited liability under Companies Law (2011 Revision) (as combined and revised) of the Cayman Islands. Authorized share capital of Yintech is USD 0.03 million, or 3,000,000,000 authorized shares with a par value of USD 0.00001 each. Upon the establishment, 1,000,000,000 shares were issued to Founding Shareholders at par value, equivalent to ordinary share capital of USD 0.01 million.

In 2017, 47,573,600 ordinary shares were issued and RMB 36.93 million were recognized as additional paid-in capital due to the exercise of stock options and RSUs.

In 2018, 42,776,980 ordinary shares were issued and RMB 19.93 million were recognized as additional paid-in capital due to the exercise of stock options and RSUs.

In 2019, 11,833,340 ordinary shares were issued and RMB 4.87 million were recognized as additional paid-in capital due to the exercise of stock options and RSUs.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

17. TREASURY STOCK

On May 29, 2018 and May 30, 2019, the Company's Board of Directors authorized a share repurchase program, under which the Company is authorized to purchase up to USD 30 million and USD 20 million worth of its outstanding American depositary shares ("ADSs") over the following 12 months. As of December 31, 2018 and 2019, approximately 39.12 million and 48.82 million ordinary shares were repurchased for approximately RMB 111.17 million and RMB 129.76 million in cash. ADSs repurchased during 2018 and 2019 was approximately 27.79 million and 9.70 million ordinary shares for cash consideration of RMB 74.20 million and RMB 18.59 million respectively.

The Company's proposed repurchases may be made from time to time on the open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means depending on market conditions and other factors as well as subject to relevant rules under United States securities regulations.

As of December 31, 2018, all treasury stock repurchased were no longer outstanding and pending for cancellation and were included as treasury stock.

As of December 31, 2019, 48.05 million ordinary shares of treasury stock have been cancelled, 0.76 million ordinary shares of treasury stock repurchased are no longer outstanding and pending for cancellation and are included as treasury stock.

18. DIVIDEND DISTRIBUTION

On March 9, 2018, the Board of Directors approved an annual dividend distribution of USD 0.02 per ordinary share to shareholders of record as of the close of business on March 27, 2018, representing RMB 177.50 million in total, and was paid out of the Company's capital premium account in April, 2018.

The Group did not declare a dividend distribution in 2019.

19. RETAINED EARNINGS

Pursuant to the Company Law of the PRC, each of the PRC entity is required to appropriate 10% of its net income to the statutory reserve on an annual basis until the aggregated amount of the reserve reaches 50% of its registered capital. Statutory reserve is not distributable. Subject to the approval of the shareholders, the statutory reserve may be used to offset accumulated losses, or converted into capital of the Company.

	December 31,		
	2018	2019	2019
	RMB	RMB	(Note2) USD Unaudited
PRC statutory reserve	171,090	196,159	28,176
Unreserved retained earnings	481,597	542,208	77,884
Total retained earnings	652,687	738,367	106,060

As of December 31, 2019, Gold Master Network, Qian Du, Qian Qi, Qian Jing, Min Qing, Chun Xin, Yintech Investment, Yin Sai have reached such maximum reserve amount and therefore stopped appropriation, while other PRC entities have not yet reached their respective maximum reserve amount.

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands)

20. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Foreign currency translation adjustment RMB	Unrealized gain on available-for-sale investments			Total RMB
		Before tax amount RMB	Income tax (expense) or benefit RMB	Net-of-tax amount RMB	
Balance at January 1, 2017	43,937	—	—	—	43,937
Other comprehensive income/(loss) before reclassification	(18,714)	37,277	(7,283)	29,994	11,280
Amounts reclassified from accumulated other comprehensive income/(loss)	—	(38,392)	7,598	(30,794)	(30,794)
Balance at December 31, 2017	25,223	(1,115)	315	(800)	24,423
Cumulative effect of adoption of ASU 2016-01	—	1,115	(315)	800	800
Other comprehensive income/(loss) before reclassification	22,538	—	—	—	22,538
Amounts reclassified from accumulated other comprehensive income/(loss)	—	—	—	—	—
Balance at December 31, 2018	47,761	—	—	—	47,761
Other comprehensive income/(loss) before reclassification	2,348	1,008	252	756	3,104
Amounts reclassified from accumulated other comprehensive income/(loss)	—	—	—	—	—
Balance at December 31, 2019	50,109	1,008	252	756	50,865
Balance at December 31, 2019 in USD (Note2) (unaudited)	7,198	145	36	109	7,306

The amounts reclassified out of accumulated other comprehensive income represent realized gains on the available-for-sale investments upon their sales prior to the adoption of ASU 2016-01, which were then recorded in “Trading gains / (losses), net” in the consolidated statements of comprehensive income/(loss).

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

21. NON-CONTROLLING INTERESTS

		December 31,	
	2018	2019	2019
	RMB	RMB	(Note2)USD Unaudited
Sina Shi Jin	96,974	141,762	20,363
Bo Zhong	3,449	4,181	601
Xin Hui Tong	7,308	6,953	999
Total	107,731	152,896	21,963

Non-controlling interests related to Sina Shi Jin, Bo Zhong and Xin Hui Tong, mainly represent the original investment, cumulative results of operations and changes in equity (deficit) attributable to non-controlling shareholders. Sina Shi Jin, Bo Zhong and Xin Hui Tong were acquired on May 31, 2017, July 31, 2017 and January 31, 2018 respectively (Note 4 Acquisitions).

22. LEASE

The Group has several non-cancellable operating leases, primarily for office premises that expire over the next five years. The Group does not enter into any finance leases or leases where the Group is a lessor. These leases generally do not contain renewal options for periods ranging from two to five years. Such options are accounted for only when it is reasonably certain that the Group will exercise the options. The Group's leases generally do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts represents fixed payments.

The components of lease cost for the year ended December 31, 2019 include:

	Year ended December 31,	
	2019	2019
	RMB	(Note2)USD Unaudited
Operating lease cost	48,834	7,015
Short-term lease cost	14,795	2,125
Total lease cost	63,629	9,140

Amounts reported in the consolidated balance sheet as of December 31, 2019 include:

	December 31,	
	2019	2019
	RMB	(Note2)USD Unaudited
Operating lease:		
Operating lease ROU assets	34,476	4,952
Operating lease liabilities	30,846	4,431

Other information related to leases as of December 31, 2019 includes:

Supplemental cash flow information

	Year ended December 31,	
	2019 RMB	2019 (Note2)USD Unaudited
Operating cash flow from operating and short-term leases	67,259	9,661
ROU assets obtained in exchange for lease liability*	101,466	14,575
Reduction of ROU assets due to modification in lease term	(16,719)	(2,401)

Lease Term and Discount Rate

	December 31, 2019
Weighted average remaining lease term	1.56 years
Weighted average discount rate	4.67%

*Amounts disclosed for ROU assets obtained in exchange for lease obligations include amounts added to the carrying amount of ROU assets resulting from lease modifications and reassessments.

Maturities of lease liabilities under non-cancellable leases as of December 31, 2019 are as follows:

	RMB
Year ending December 31	
2020	24,124
2021	4,343
2022	1,217
2023	1,217
2024 and thereafter	1,217
Total undiscounted lease payments	32,118
Less: imputed interest	(1,272)
Total lease liabilities	30,846

The Group's leases are for the office premises. Future minimum lease payments under non-cancellable operating leases agreements as of December 31, 2018 are as follows. The Group's leases do not contain any contingent rent payment terms.

	RMB
Year ending December 31	
2019	53,582
2020	22,193
2021	18,792
2022	4,962
2023	5,034
2024 and thereafter	5,479
Total	110,042

Rental expenses incurred under operating leases were RMB 78.01 million and RMB 67.87 million for the years ended December 31, 2017 and 2018, respectively. Operating lease cost for the year ended December 31, 2019 was RMB 48.83 million, which excluded cost of short-term contracts. Short term lease cost for the year ended December 31, 2019 was RMB 14.80 million.

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands)

23. COMMISSIONS AND FEES

	Year ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Spread fees	274,630	—	—	—
Trading commissions, net	1,875,740	604,375	881,367	126,600
Overnight fees, net	27,501	—	—	—
Securities advisory fee	20,704	285,086	427,134	61,354
Securities brokerage fee	—	50,404	88,349	12,691
Asset management fee	—	2,003	2,725	391
Total	2,198,575	941,868	1,399,575	201,036

The Group earns trading commissions, spread fees and overnight fees from its operation on Tianjin and Guangdong Exchanges, which are settled on a daily basis. The Group earns trading commissions from its operation on Shanghai Gold Exchange and the Futures Commodity Exchange, which are settled on a monthly basis. The Group earns securities brokerage fee from its securities brokerage service, which are settled on a transactional basis. The Group earns securities advisory fee from its securities advisory service business, which are amortized over the prescribed contract period.

Spread fees are earned based on the quantity of the underlying commodities of the customer's trades. The amount of the spread fees for each type of spot commodity contract is fixed and set by the Tianjin and Guangdong Exchanges and varies by commodity types. Trading commissions are generated based on the notional trading transaction value of the customers at the opening and closing of a position. Overnight fees are generated from customers who hold a long or short position overnight to the next trading day. The spread fees, standard trading commission rate and overnight fees for each commodity are determined by the Exchanges where such spot commodity contract is traded.

Cash rebates are offered to customers on the trading commission and overnight fees. The cash rebates are determined by the Group on an individual customer basis and paid monthly. The rebates are deducted from the gross trading commission or overnight fees. Total customer rebates recognized during the years ended December 31, 2017, 2018 and 2019 were RMB 108.83 million in 2017 and nil thereafter, respectively.

Starting from June 2017, no more trading commissions, spread fees and overnight fees were generated from the Group's operation in Tianjin and Guangdong Exchanges, and cash rebates was suspended from October 2017.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

24. TRADING GAINS / (LOSSES)

Trading gains / (losses) consists of realized and unrealized gains and losses from exchange-traded spot commodity contracts with customers and special members, commodity futures contracts, risk and return transfer agreements with third party fund, the realized gain from trading of physical commodities, realized and unrealized gains and losses from equity securities investments pursuant to the adoption of ASU 2016-01, and realized gains and losses from the sale of AFS investments prior to the adoption of ASU 2016-01, all presented on a net basis.

Pursuant to the risk and return transfer agreements, the Group's gains / (losses) arising from exchange-traded spot commodity contracts with customers were transferred to, and absorbed by the third party fund during the contract periods. Fair value movements on the risk and reward transfer agreement were recognised as trading gains / (losses). Settlements were made on a monthly basis.

The following table presents trading gains / (losses) for the years ended December 31:

	Year ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Spot commodity contracts	(133,116)	—	—	—
Risk and return transfer arrangement	134,678	—	—	—
Commodity futures contracts	753	—	—	—
Trading of physical commodities	(152)	—	—	—
Income from investment securities	38,391	34,103	207,743	29,841
Income from equity method investment	—	230	114	16
Total	40,554	34,333	207,857	29,857

25. OTHER REVENUES

	Year ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Gain on disposal of subsidiaries	87,217	5,754	6	1
VAT refund	33,523	4,635	3,885	558
Sales of silver products	13,546	15	—	—
Sales of application services	6,475	55,513	26,173	3,760
Government grants and others	63,650	34,498	19,309	2,773
Total	204,411	100,415	49,373	7,092

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

25. OTHER REVENUES (CONTINUED)

Government grants and others primarily consist of financial subsidies granted by provincial and local governments for operating a business in their jurisdiction. The government grants are non-recurring in nature and there is no assurance that the Group will continue to receive such government grants in the future.

During the year ended December 31, 2017, 2018 and 2019, the Group recognized VAT refund of RMB 33.52 million, RMB 4.64 million and RMB 3.89 million, respectively, based on the VAT preferential policy issued by the State Administration of Tax. VAT refund is recognized when there is reasonable assurance that they will be received and amounts can be reasonably estimated. VAT refund is first recorded to offset the corresponding cost recognized by the Group, any excess refund is recognized in other revenue. The outstanding VAT refund receivable is RMB 7.69 million, RMB 11.77 million and RMB 1.15 million as at December 31, 2017, 2018 and 2019, respectively.

During the year ended December 31, 2017, 2018 and 2019, the group recognized application service revenue of RMB 6.48 million, RMB 55.51 million and RMB 26.17 million, respectively. Sales of application services comprise the sales of a license subscription bundled with customer support service during the license period. Revenue from sales of application services are amortized over the term of the arrangement.

In 2017, the Group disposed eight subsidiaries, including Sheng Ding, Da Xiang Ping Tai, Tian Jin Da Xiang, Da Xiang Shun Yi, Rong Jin Hui Yin, Jin Xiang Yin Rui, Yin Ru Yi and Yin Tian Xia Products, to third parties. The Group realized a disposal gain of RMB 87.22 million in total.

In 2018, the Group disposed one subsidiary, Tian Xi, to a former management personnel of the Group. The Group realized a disposal gain of RMB 5.75 million.

In 2019, the Group disposed one subsidiary, Xu Liang, to a former management personnel of the Group. The Group realized a disposal gain of RMB 6 thousand. No outstanding receivables relating to disposal of subsidiaries as at December 31, 2019.

26. ADVERTISING AND PROMOTION

Advertising and promotion consists of market promotion cost and sales agent cost paid to third party companies.

	Year ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Advertising expenses	317,843	199,368	279,691	40,175
Sales agent expenses	107,022	23,897	60,064	8,628
Total	424,865	223,265	339,755	48,803

The sales agent expenses are related to fees which paid by Hao Miao, Gold Master, Forthright International, Die Xiao, Yuan Shi, Jin Shou Zhi and Qian Shi to external sales agent companies for their customer development services on the Gold Exchanges and the Futures Commodity Exchanges.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

27. INCOME TAXES

Cayman Islands and BVI

Under the current laws of the Cayman Islands and BVI, the Group is not subject to tax on income or capital gains. Additionally, upon payments of dividends by Yintech to its shareholders, neither Cayman Islands nor BVI withholding tax will be imposed.

Hong Kong

Under the Hong Kong tax laws, subsidiaries in Hong Kong are exempted from income tax on their foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

PRC

The subsidiaries incorporated in PRC file separate tax returns in the PRC. The PRC statutory income tax rate is 25% according to the Corporate Income Tax (“CIT”) Law. Under the Enterprise Income Tax Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends payable by a resident enterprise to investors that are non-resident enterprises, to the extent such dividends are derived from sources within the PRC, subject to any reduction set forth in applicable tax treaties.

United States

The Company’s subsidiary incorporated in the United States is subject to income tax charges calculated on the basis of the tax laws enacted.

New Zealand

The Company’s subsidiary incorporated in New Zealand is subject to income tax at 28% on the basis of the tax laws enacted.

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

27. INCOME TAXES (CONTINUED)

Pretax income/(loss) consists of the following for the years ended 31 December:

	Year ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
PRC	648,922	(887,837)	200,263	28,765
Cayman	(8,218)	(5,677)	(6,671)	(958)
Hong Kong	(2,348)	20,129	33,865	4,864
United States	(1,814)	636	(6,394)	(918)
New Zealand	—	389	37,430	5,376
Total income/(loss) before income taxes	636,542	(872,360)	258,493	37,129

The pre-tax income/(losses) from non-PRC entities consist primarily of trading commissions, interest income/(losses) and administration expenses.

Income tax expense consists of the following for the years ended 31 December:

	Year ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Current tax expense:				
PRC	134,350	62,196	67,789	9,737
Hong Kong	—	—	7,386	1,061
New Zealand	—	624	9,964	1,431
Deferred tax (benefit)/expense:				
PRC	35,206	(61,108)	42,012	6,035
Hong Kong	—	(684)	774	111
Total income tax expense	169,556	1,028	127,925	18,375

	Year ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Current tax expense	134,350	62,820	85,139	12,229
Deferred tax (benefit)/expense	35,206	(61,792)	42,786	6,146
Total income tax expense	169,556	1,028	127,925	18,375

The reconciliation between the actual income tax expense and income tax computed by applying the PRC Corporate Income Tax rate of 25% to income before income taxes for the years ended December 31 is as follows:

	Note	Year ended December 31,			
		2017 RMB	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Income taxes at PRC statutory income tax rate of 25%		159,136	(218,090)	64,623	9,283
Differential tax rates for non-PRC entities		2,053	(439)	(39)	(6)
Preferential income tax rate inside the PRC	(i)	(127,602)	(6,896)	3,120	448
Change in the beginning-of-the-year balance of the valuation allowance due to a change in judgment about the realizability of deferred tax assets in future years		55,541	20,811	1,815	261
Current year change of valuation allowance on deferred tax assets		27,757	81,907	65,024	9,340
Distribution tax on PRC earnings		30,000	—	12,000	1,724
Non-deductible share-based compensation expense		42,429	6,748	6,466	929
Non-deductible bonus expense paid out of trust funds		—	—	6,483	931
Tax savings from additional deductions on certain research and development expenses	(ii)	(8,117)	(18,386)	(24,757)	(3,556)
(Non-taxable)/taxable gain on disposal of subsidiaries		(8,869)	541	—	—
Non-deductible loss on goodwill impairment		—	126,250	—	—
Interest on unrecognized tax benefits		—	4,267	12,369	1,777
Tax-exempt income		—	—	(36,504)	(5,243)
Change of tax rate impact		—	—	9,028	1,297
Distribution tax on VIE earnings		—	—	4,745	682
Other, net		(2,772)	4,315	3,552	508
Reported income taxes		<u>169,556</u>	<u>1,028</u>	<u>127,925</u>	<u>18,375</u>
Effective tax rate		27%	-0.1%	49%	49%

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in thousands)

27. INCOME TAXES (CONTINUED)

- (i) Yin Sai was granted the qualification of an “eligible high-tech enterprise” in 2019 which retroactively entitles Yin Sai to a preferential tax rate of 15% for years ended December 31, 2018 to 2020, as long as it continues meeting the related requirements. Yin He You was granted the “qualified software enterprise” status in 2016 and is eligible for an income tax exemption for the year ended December 31, 2016, and is entitled to a 50 percent reduction of income tax rate for the years ended December 31, 2017 to 2019, as long as it continues meeting the related requirements. Gold Master Network was granted the “qualified software enterprise” status in 2016 and is eligible for an income tax exemption for the years ended December 31, 2016 and 2017, and is entitled to a 50 percent reduction of income tax rate for the years ended December 31, 2018 to 2020, as long as it continues meeting the related requirements. Yi Shi was granted the “qualified software enterprise” status in 2019 and is eligible for an income tax exemption for the years ended December 31, 2019 and 2020, and is entitled to a 50 percent reduction of income tax rate for the years ended December 31, 2021 to 2023, as long as it continues meeting the related requirements. Per share impact of such tax holiday is RMB 0.09, RMB 0.00 and RMB 0.00 for the years ended December 31, 2017, 2018 and 2019, respectively.
- (ii) This amount represents tax incentives relating to the research and development expenses of certain operating subsidiaries in the PRC, which enables the claim of an additional tax deduction of the qualified research and development expenses incurred. Prior to 2018, the tax incentive percentage was 50%. Starting from 2018 until the end of 2020, the percentage is 75%.

In assessing the recoverability of deferred tax assets, management considers whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the cumulative earnings and projected future taxable income in making this assessment. Recovery of substantially all of the group’s deferred tax assets is dependent upon the generation of future income, exclusive of reversing temporary differences and carryforwards.

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands)

27. INCOME TAXES (CONTINUED)

Significant components of the Group's deferred tax assets/ (liabilities) are presented below:

	Year ended December 31,		
	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Net operating loss carryforwards	61,877	101,166	14,532
Accrued social insurance	21,379	31,646	4,546
Advertising expense carryforwards	21,316	47,561	6,832
Deferred revenue	22,557	29,810	4,282
Impairment allowance of accounts receivable	3,527	3,527	507
Operating lease liabilities	—	7,559	1,086
Provision	—	344	49
Intangible assets	20,640	21,201	3,045
Unrealized loss on investment securities	4,745	—	—
Prepayments relating to operating lease	—	871	125
Total deferred tax assets	156,041	243,685	35,004
Less: Valuation allowance	(124,726)	(191,564)	(27,517)
Deferred tax assets, net of valuation allowance	31,315	52,121	7,487
Undistributed earnings of PRC entities	—	(12,000)	(1,724)
Intangible assets	(76,006)	(69,414)	(9,971)
Investment securities	—	(43,211)	(6,207)
Operating lease right-of-use assets	—	(8,432)	(1,211)
Undistributed earnings of VIE	—	(4,745)	(682)
Equipment and leasehold improvements	(3,688)	(5,582)	(801)
Total deferred tax liabilities	(79,694)	(143,384)	(20,596)
Deferred tax assets, net	31,239	27,206	3,908
Deferred tax liabilities, net	(79,618)	(118,469)	(17,017)

The valuation allowance for deferred tax assets as of January 1, 2018 and 2019 is 16.49 million and RMB 124.73 million, respectively. The net change in the total valuation allowance was an increase of RMB 66.83 million in 2019. The valuation allowance as of December 31, 2018 and 2019 was RMB 124.73 million and RMB 191.56 million respectively, which primarily related to net operating loss carryforwards, accrued social insurance, advertising expense carryforwards and deferred revenue that, in the judgment of management, are not more-likely than-not to be realized.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data)

27. INCOME TAXES (CONTINUED)

As at December 31, 2018, the Group has a net operating loss carryforwards and advertising expense carryforwards for PRC income tax purpose of RMB 251.33 million and RMB 85.26 million, respectively. As at December 31, 2019, the Group has net operating loss carryforwards and advertising expense carryforwards for PRC income tax purpose of RMB 425.54 million and RMB 190.24 million, respectively. Net operating loss carryforwards will expire between 2020 and 2024. Advertising expense carryforwards can be carried forward indefinitely.

The tax effect of the increase in all operating loss carryforwards for which a benefit was recognized for the years ended December 31, 2017, 2018 and 2019 were RMB 20.84 million, RMB 2.21 million and RMB 7.28 million, respectively. The tax benefit from utilization of operating loss carryforwards for which valuation allowance was recognized in prior years is RMB 8.5 million and 15.25 million for the years ended December 31, 2018 and 2019, respectively.

At December 31, 2017, 2018 and 2019, the Group had unrecognized tax benefits of nil, RMB 40.07 million and RMB 116.56 million, respectively. The unrecognized tax benefits pertain to income recognition under PRC's tax laws and expense adjustments. The amount of unrecognized tax benefits which would have an impact on the Group's effective tax rate are nil, RMB 40.07 million and RMB 79.44 million as at December 31, 2017, 2018 and 2019, respectively.

No interest related to unrecognized tax benefit was accrued in 2017 due to the disposal of relevant subsidiaries. As of December 31, 2018 and 2019, interest on unrecognized tax benefits was RMB 4.27 million and RMB 16.64 million respectively, which was recorded as part of the income tax payable in the consolidated financial statements. For the year ended December 31, 2018 and 2019, interest expense recognised in relation to unrecognized tax benefits was RMB 4.27 million and RMB 12.37 million respectively, which was recorded under income tax expense in the consolidated statements of comprehensive income/(loss).

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	RMB
Balance at December 31, 2017	—
Increase based on tax positions taken in the prior year	40,067
Balance at December 31, 2018	40,067
Increase based on tax positions taken in the prior year	39,371
Increase based on tax positions expected to be taken in current year	37,118
Balance at December 31, 2019	116,556

The Group's only major jurisdiction is China where tax returns generally remain open and subject to examination by tax authorities for tax years 2013 onwards.

As of December 31, 2019, the group recognized a deferred tax liability of RMB 10 million and RMB 2 million for the expected earnings distribution of RMB 100 million and RMB 40 million based on the withholding tax rate of 10% and 5% respectively. After setting aside the expected distribution of RMB 140 million, the gross remaining balance of undistributed earnings from the foreign subsidiaries is approximately RMB 1.3 billion. The Group has not recognized a deferred tax liability for this temporary difference as it is indefinitely reinvested. The unrecognized deferred tax liability is approximately RMB 131.85 million as of December 31, 2019. If future changes in the business environment cause the Group to change its plan to such that some or all of the undistributed earnings are remitted, such temporary difference would become taxable.

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in thousands)

28. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2017, 2018 and 2019.

	Year ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	2019 (Note2) USD Unaudited
Net Income/(loss) attributable to Yintech	480,664	(863,038)	85,680	12,306
Basic weighted average number of ordinary shares outstanding	1,398,435,985	1,435,146,878	1,456,317,224	1,456,317,224
Effect of dilutive share options and RSUs	47,760,075	19,116,441	48,690,965	48,690,965
Dilutive weighted average number of ordinary shares *	1,446,196,060	1,435,146,878	1,505,008,189	1,505,008,189
Basic earnings/(losses) per share	0.34	(0.60)	0.06	0.01
Diluted earnings/(losses) per share *	0.33	(0.60)	0.06	0.01

* Effect of dilutive share options and RSUs were excluded from the computation of dilutive earnings per share because their inclusion would have been anti-dilutive.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in thousands)

29. EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Stock option

In 2017, 2018 and 2019, Yintech granted a total of 10,000,000, 1,800,000 and nil, respectively, stock option to certain directors, eligible person and employees. The stock options are vested during the vesting period. Upon vesting, each stock option shall be entitled to the purchase of one ordinary share in the share capital of Yintech before it lapses.

Stock option activity during the periods indicated is as follows:

	Number of options	Weighted average exercise price USD	Weighted average remaining contractual term	Aggregate intrinsic value RMB
Balance at January 1, 2017	123,400,854	0.370	5.38	385,869
Granted	10,000,000	0.500	—	—
Exercised	(30,751,280)	0.175	—	—
Forfeited	(1,020,914)	0.213	—	—
Expired	—	—	—	—
Balance at December 31, 2017	101,628,660	0.361	4.49	77,496
Exercisable at December 31, 2017	40,004,140	0.292	3.41	30,505
Balance at January 1, 2018	101,628,660	0.361	4.49	77,496
Granted	1,800,000	0.500	—	—
Exercised	(18,594,040)	0.163	—	—
Forfeited	(10,347,980)	0.476	—	—
Expired	—	—	—	—
Balance at December 31, 2018	74,486,640	0.394	3.40	40,593
Exercisable at December 31, 2018	44,886,800	0.352	3.30	31,353
Balance at January 1, 2019	74,486,640	0.394	3.40	40,593
Granted	—	—	—	—
Exercised	(4,366,240)	0.163	—	—
Forfeited	(1,266,700)	0.500	—	—
Expired	—	—	—	—
Balance at December 31, 2019	68,853,700	0.410	2.41	28,439
Exercisable at December 31, 2019	57,978,720	0.393	2.80	27,733

The weighted average grant date fair value of options granted during the years ended December 31, 2017, 2018 and 2019 was RMB 8.29 million, RMB 1.15 million and nil, respectively.

YINTECH INVESTMENT HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands)

29. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(a) Stock option (Continued)

As of December 31, 2017, 2018 and 2019, there was RMB 31.57 million, RMB 6.78 million and RMB 0.72 million of total unrecognized compensation cost related to unvested stock options. That cost is expected to be recognized over a weighted average period of 1.12 years. During the years 2017, 2018 and 2019, compensation cost recognized in earnings in relation to stock options are RMB 78.12 million, RMB 24.69 million and RMB 5.93 million, respectively. No income tax benefit was recognized related to the stock options.

Fair value of share options and assumptions

The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations and staff turnover rate are incorporated into the binomial lattice model.

	2017	2018	2019
Expected volatility (expressed as weighted average volatility)	47.23%	48.19%	—
Option life	5.64-9.32	5.53-6.53	—
Expected dividends	4.30%	4.27%	—
Risk-free interest rate	1.78%-2.10%	2.81%-2.85%	—

In 2017 and 2018, historical volatility of Yintech was used as Yintech was listed in NASDAQ. Expected dividends were based on Yintech's average dividend yield. Risk-free interest rate is based on US Treasury zero-coupon issues with maturity terms similar to the expected term on the stock-based awards. Changes in the subjective input assumptions could materially affect the fair value estimate.

In 2019, Yintech did not grant any stock options.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There was no market conditions associated with the share option grants.

(b) Restricted share units

In 2017, 2018 and 2019, Yintech granted a total of 39,877,700, 463,580 and 10,948,660 RSUs, respectively, to certain directors, eligible person and employees. The RSUs are vested during the vesting period, subject to the fulfillment of certain operational and/or financial performance targets as set by the Board, if any, that are probable of being met. Upon vesting, each RSU shall be entitled to the transfer or issue of one ordinary share in the share capital of Yintech.

YINTECH INVESTMENT HOLDINGS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands)

29. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)
(b) Restricted share units (Continued)

	Number of units	Weighted average remaining contractual term	Aggregate intrinsic value RMB
Balance at January 1, 2017	7,688,524	1.16	43,773
Granted	39,877,700	—	—
Vested	(37,631,880)	—	—
Forfeited	(916,264)	—	—
Balance at December 31, 2017	9,018,080	2.00	28,046
Balance at January 1, 2018	9,018,080	2.00	28,046
Granted	463,580	—	—
Vested	(2,716,500)	—	—
Forfeited	(3,164,778)	—	—
Balance at December 31, 2018	3,600,382	1.60	7,550
Balance at January 1, 2019	3,600,382	1.60	7,550
Granted	10,948,660	—	—
Vested	(9,353,780)	—	—
Forfeited	(3,739,442)	—	—
Balance at December 31, 2019	1,455,820	1.19	2,589

The weighted average grant date fair value of RSUs granted during the years ended December 31, 2017, 2018 and 2019 was RMB 49.21 million, RMB 0.66 million and RMB 4.48 million, respectively. As of December 31, 2017, 2018 and 2019, there was RMB 11.41 million, RMB 2.22 million and RMB 1.53 million, respectively, of total unrecognized compensation cost related to unvested RSUs. That cost is expected to be recognized over a weighted average period of 1.27 years. In 2017, 2018 and 2019, compensation cost recognized in earnings in relation to RSUs is RMB 91.60 million, RMB 2.41 million and RMB 20.34 million, respectively. No income tax benefit was recognized related to the restricted share units.

YINTECH INVESTMENT HOLDINGS LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Amounts in thousands)**30. RELATED PARTY TRANSACTIONS****(a) Acquisition of Forthright Group**

On December 29, 2017, the Group acquired 100% of the shares of the Forthright Group with a total consideration of approximately RMB 12.81 million. The Forthright Group was previously wholly owned by one of the Company's Founding Shareholders. Upon completion of this acquisition, RMB 16.56 million was recognized as goodwill accordingly.

(b) Acquisition of Forthright International

On December 29, 2017, the Group acquired 100% of the shares of the Forthright International with a total consideration of approximately RMB 2.12 million. Forthright International was previously wholly owned by Win Yin Financial and Information Service Company Limited, which was wholly owned by the Company's Founding Shareholders. Upon completion of this acquisition, RMB 1.34 million was recognized as goodwill accordingly.

(c) Fund investments managed by Chun Da

As at December 31, 2017, the Group held RMB 154.18 million (net of fair value loss) in fund investments managed by Chun Da. Chun Da is a wholly owned subsidiary within the Group which primarily provides asset management services.

As at December 31, 2018, the Group did not hold any amounts in fund investments managed by Chun Da.

As at December 31, 2019, the Group held RMB 3.77 million (net of fair value loss) in fund investments managed by Chun Da that were not consolidated into the Group's consolidated financial statements. Chun Da is a wholly owned subsidiary within the Group which primarily provides asset management services.

(d) Loan to Group's management personnel

On July 1, 2018, the Group approved a staff benefit plan in the form of staff loan. The plan provides non-interest bearing staff loans for house purchase. As at December 31, 2018, the Group has granted RMB 5 million to a Group's management personnel. This amount has been fully received as at December 31, 2019.

(e) Advanced leasing deposit with Shanghai Xie Yu Properties Limited

On May 1, 2018, the Group entered into an advanced leasing agreement with Shanghai Xie Yu Properties Limited (Xie Yu) and has paid RMB 20 million as non-interest bearing deposit in advance. Based on the agreement, future rent can be paid out from the deposit. The Group identifies Xie Yu as a related party, because the Group could impose significant influence on Xie Yu through the Group's CEO's spouse.

(f) Chun Da fund investments held by Group's management personnel

As at December 31, 2019, the Group has amount due to related parties of RMB 4.43 million, which represents Chun Da fund investments held by management personnel.

31. SEGMENT INFORMATION

The Group's chief operating decision maker has been identified as the Chief Executive Officer who reviews the consolidated results of operation when making decisions about allocating resources and assessing performance of the Group. The Group operates and manages its business as a single segment.

Substantially all of the Group's revenue for the years ended December 31, 2017, 2018 and 2019 were originated from the PRC.

As of December 31, 2018 and 2019, respectively, substantially all of long-lived assets of the Group were located in the PRC.

32. **SUBSEQUENT EVENTS**

Management has considered subsequent events through April 27, 2020, which was the date these consolidated financial statements were issued.

(a) **Cash dividends to shareholders**

On March 16, 2020, upon the approval of the Company's Board of Directors, the Company declared an annual dividend of USD 0.3 per ADS to shareholders of record as of the close of business on March 31, 2020.

(b) **Covid-19**

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in Wuhan, PRC. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The COVID-19 outbreak has caused significant disruption to the financial markets and international supply chains, which can substantially depress global business activities, restrict access to capital and result in a long-term economic downturn that would negatively affect the group's operating results. It might also cause severe instabilities of transactions, which will in turn negatively affect the business in the future. While there have been intensifying efforts to contain the spread of the COVID-19 by the governments of the countries and territories affected, the impact on which COVID-19 could have, is highly uncertain and depends on future developments, including new information that emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others. The Group is in the process of analyzing its impact on the Group's business performance.

**Description of rights of each class of securities
registered under Section 12 of the Securities Exchange Act of 1934 (the “Exchange Act”)**

American Depositary Shares (“ADSs”) each representing twenty ordinary shares of Yintech Investment Holdings Limited (“we,” “our,” “our company,” or “us”) are listed and traded on the NASDAQ Global Select Market and, in connection therewith, the ordinary shares are registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This exhibit contains a description of the rights of (i) the holders of ordinary shares and (ii) the holders of the ADSs. Ordinary shares underlying the ADSs are held by Bank of New York Mellon, as depositary, and holders of ADSs will not be treated as holders of ordinary shares.

Description of Ordinary Shares

The following is a summary of material provisions of our currently effective amended and restated memorandum and articles of association (the “Memorandum and Articles of Association”), as well as the Companies Law (as amended) of the Cayman Islands (the “Companies Law”) insofar as they relate to the material terms of the ordinary shares. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire Memorandum and Articles of Association, which has been filed with the Securities And Exchange Commission (the “SEC”) as an exhibit to our Registration Statement on Form F-1 (File No. 333-210584) filed with the SEC on April 4, 2016.

Type and Class of Securities (Item 9.A.5 of Form 20-F)

Each ordinary share has US\$0.00001 par value. The number of ordinary shares that have been issued as of the last day of the financial year ended December 31, 2019 is provided on the cover of our annual report on Form 20-F (the “2019 Form 20-F”). Our ordinary shares may be held in either certificated or uncertificated form.

Preemptive Rights (Item 9.A.3 of Form 20-F)

Our shareholders do not have preemptive rights.

Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of Ordinary Shares (Item 10.B.3 of Form 20-F)

Dividends

The holders of our ordinary shares are entitled to receive such dividends as may be declared by our board of directors subject to our Memorandum and Articles of Association and the Companies Law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, dividends may be paid only out of profits, retained earnings and out of share premium. No dividend may be declared and paid unless our directors determine that, immediately after the payment, we will be able to satisfy our liabilities as they become due in the ordinary course of business and we have funds lawfully available for such purpose.

Voting Rights

Holders of our ordinary shares have the right to receive notice of, attend, speak and vote at general meetings of our company. Each ordinary share shall be entitled to one vote on all matters subject to the vote at general meetings of our company. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman. An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting, which can be an annual general meeting or a special meeting of shareholders. A special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the ordinary shares cast in a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Law and our Memorandum and Articles of Association. A special resolution will be required for important matters such as a change of name or making changes to our Memorandum and Articles of Association.

Transfer of Ordinary Shares

Subject to the restrictions in our Memorandum and Articles of Association as set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid-up or on which we have a lien. Our directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four;
- the ordinary shares transferred are fully paid or free of any lien in favor of us; or
- a fee of such maximum sum as the NASDAQ may determine to be payable or such lesser sum as the directors may from time to time require, is paid to the company thereof.

The registration of transfers of shares or of any class of shares may, after compliance with any notice requirement of the designated stock exchange, be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as the Board may determine.

- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four;
- the ordinary shares transferred are fully paid or free of any lien in favor of us; or
- a fee of such maximum sum as the NASDAQ may determine to be payable or such lesser sum as the directors may from time to time require, is paid to the company thereof.

The registration of transfers of shares or of any class of shares may, after compliance with any notice requirement of the designated stock exchange, be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as the Board may determine.

Liquidation

On a return of capital on winding-up or otherwise (other than on conversion, redemption or purchase of ordinary shares), assets available for distribution among the holders of ordinary shares will be distributed among the holders of the ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately. We are a “limited liability” company registered under the Companies Law, and under the Companies Law, the liability of our members is limited to the amount, if any, unpaid on the shares respectively held by them. Our Memorandum of Association contains a declaration that the liability of our members is so limited.

Calls on Ordinary Shares and Forfeiture of Ordinary Shares

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares in a notice served to such shareholders at least 14 calendar days prior to the specified time and place of payment. The ordinary shares that have been called upon and remain unpaid on the specified time are subject to forfeiture.

Redemption, Repurchase and Surrender of Ordinary Shares

We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors. Our company may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by our board of directors and agree with the shareholder, or are otherwise authorized by our Memorandum and Articles of Association. Under the Companies Law, the redemption or repurchase of any share may be paid out of a company’s profits or one of the share premium account, or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or, if so authorized by its articles of association, out of capital if the company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid-up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Requirements to Change the Rights of Holders of Ordinary Shares (Item 10.B.4 of Form 20-F)

Variations of Rights of Shares

If at any time the share capital is divided into different classes of shares, the rights attached to any class of shares may, unless otherwise provided by the terms of issue of the shares of that class, be varied with the sanction of a special resolution of the holders of the shares of that class.

Limitations on the Rights to Own Ordinary Shares (Item 10.B.6 of Form 20-F)

There are no limitations under the laws of the Cayman Islands or under the Memorandum and Articles of Association that limit the right of non-resident or foreign owners to hold ordinary shares.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

Anti-Takeover Provisions. Some provisions of the Memorandum and Articles of Association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders. Under Cayman Islands law, our directors may only exercise the rights and powers granted to them under the Memorandum and Articles of Association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

Ownership Threshold (Item 10.B.8 of Form 20-F)

There are no provisions under Cayman Islands law applicable to the Company, or under the Memorandum and Articles of Association, that require the Company to disclose shareholder ownership above any particular ownership threshold.

Differences between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

The Companies Law is derived, to a large extent, from the older Companies Acts of England, but does not follow many recent English law statutory enactments. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the State of Delaware.

Mergers and Similar Arrangements. The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (i) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (ii) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (i) a special resolution of the shareholders of each constituent company, and (ii) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a declaration as to the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman Islands parent company and its Cayman Islands subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman Islands subsidiary if a copy of the plan of merger is given to every member of that Cayman Islands subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a “parent” of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain limited circumstances, a shareholder of a Cayman Islands constituent company who dissents from the merger or consolidation is entitled to payment of the fair value of its, his or her shares (which, if not agreed between the parties, will be determined by a Cayman Islands court) upon dissenting to the merger or consolidation, provided that the dissenting shareholder complies strictly with the procedures set out in the Companies Law. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which it, he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the ground that the merger or consolidation is void or unlawful.

Separate from the statutory provisions relating to mergers and consolidations, the Companies Law also contains statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question; and
- the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class; the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

The Companies Law also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of a dissenting minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four-month period, require the holders of the remaining shares to transfer such shares to the offeror on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction by way of scheme of arrangement is thus approved and sanctioned, or if a tender offer is made and accepted, in accordance with the foregoing statutory procedures, a dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits. In principle, we will normally be the proper plaintiff to sue for a wrong done to us as a company, and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, a Cayman Islands court can be expected to follow and apply the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) which permit a minority shareholder to commence a class action against or derivative actions in the name of a company to challenge actions where:

- the company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a “fraud on the minority.”

Indemnification of Directors and Executive Officers and Limitation of Liability. Cayman Islands law does not limit the extent to which a company’s memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. The Memorandum and Articles of Association provides that that we shall indemnify our officers and directors against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such directors or officers, other than by reason of such person’s dishonesty, willful default or fraud, in or about the conduct of our company’s business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his or her duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such directors or officers in defending (whether successfully or otherwise) any civil proceedings concerning our company or our affairs in any court whether in the Cayman Islands or elsewhere. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation.

In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in the Memorandum and Articles of Association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Directors' Fiduciary Duties. Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself or herself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director acts in a manner he reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation and its shareholders. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction, and that the transaction is fair to the corporation and its shareholders.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he or she owes the following duties to the company: (i) a duty to act bona fide in the best interests of the company; (ii) a duty not to make a profit based on his or her position as director (unless the company permits him or her to do so); (iii) a duty not to put himself or herself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party; and (iv) a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company also owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Shareholder Proposals. Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided that it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. The Memorandum and Articles of Association allows any one or more of our shareholders who together hold shares which carry in aggregate not less than 20% of the paid-up capital of our company entitled to vote at general meetings to requisition an extraordinary general meeting of our shareholders, in which case our board of directors is obliged to convene an extraordinary general meeting and to put the proposals so requisitioned to a vote at such meeting. Other than this right to requisition a shareholders' meeting, the Memorandum and Articles of Association does not provide our shareholders with any other right to put proposals before annual general meetings or extraordinary general meetings not called by such shareholders. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings.

Cumulative Voting. Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director nominee, which increases the shareholder's voting power with respect to electing such director nominee. There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands but the Memorandum and Articles of Association does not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors. Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under the Memorandum and Articles of Association, directors may be removed with or without cause, by an ordinary resolution of our shareholders. A director shall hold office until the expiration of his or her term or his or her successor shall have been elected and qualified, or until his or her office is otherwise vacated. In addition, a director's office shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his or her creditors; (ii) is found to be or becomes of unsound mind or dies; (iii) resigns his or her office by notice in writing to our company; (iv) is prohibited by law from being a director; or (v) is removed from office pursuant to any other provisions of the Memorandum and Articles of Association.

Transactions with Interested Shareholders. The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the corporation's outstanding voting shares within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for a Delaware corporation in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the shareholder becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the corporation's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, the directors of the company are required to comply with fiduciary duties which they owe to the company under Cayman Islands laws, including the duty to ensure that, in their opinion, any such transactions must be entered into bona fide in the best interests of the company, and are entered into for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding Up. Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board of directors.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. A court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Law and the Memorandum and Articles of Association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

Variation of Rights of Shares. Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and the Memorandum and Articles of Association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class with the written consent of the holders of not less than two-thirds of the issued shares of that class or with the sanction of a resolution passed at a general meeting of the holders of the shares of that class by two-thirds of the votes cast at such a meeting.

Amendment of Governing Documents. Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under the Companies Law and the Memorandum and Articles of Association, the Memorandum and Articles of Association may only be amended by a special resolution of our shareholders.

Rights of Non-Resident or Foreign Shareholders. There are no limitations imposed by our Memorandum and Articles of Association on the rights of nonresident or foreign shareholders to hold or exercise voting rights of our shares. In addition, there are no provisions in our Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

Directors' Power to Issue Shares. Under the Memorandum and Articles of Association, our board of directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

Exempted Company. The Companies Law distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary resident company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue negotiable or bearer shares or shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on that shareholder’s shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Debt Securities (Item 12.A of Form 20-F)

Not applicable.

Warrants and Rights (Item 12.B of Form 20-F)

Not applicable.

Other Securities (Item 12.C of Form 20-F)

Not applicable.

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

American Depositary Shares

The Bank of New York Mellon, as depositary, issues and delivers American Depositary Shares, also referred to as ADSs, also referred to as ADSs. Each ADS represents 20 ordinary shares (or a right to receive 20 ordinary shares) deposited with The Hongkong and Shanghai Banking Corporation Limited, as custodian for the depositary in Hong Kong. Each ADS also represents any other securities, cash or other property which may be held by the depositary. The depositary's office at which the ADSs are administered is located at 101 Barclay Street, New York, New York, 10286. The depositary's principal executive office is located at 225 Liberty Street, New York, New York, 10286.

You may hold ADSs either (A) directly (i) by having an American Depositary Receipt, also referred to as an ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (ii) by having uncertificated ADSs registered in your name, or (B) indirectly by holding a security entitlement in ADSs through your broker or other financial institution that is a direct or indirect participant in The Depository Trust Company, also called DTC. If you hold ADSs directly, you are a registered ADS holder, also referred to as an ADS holder. This description assumes you are an ADS holder. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Registered holders of uncertificated ADSs will receive statements from the depositary confirming their holdings.

As an ADS holder, we will not treat you as one of our shareholders and you will not have shareholder rights. Cayman Islands law governs shareholder rights. The depositary will be the holder of the shares underlying your ADSs. As a registered holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary, ADS holders and all other persons indirectly or beneficially holding ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire deposit agreement and the form of ADR which contains the terms of your ADSs. The deposit agreement has been filed with the SEC as an exhibit to a Registration Statement on Form F-1 (File No. 333-210584) for the Company. The form of ADR is on file with the SEC (as a prospectus) and was filed on April 19, 2016.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay or distribute to ADS holders the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, upon payment or deduction of its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

Cash. The depositary will convert any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

Before making a distribution, any withholding taxes, or other governmental charges that must be paid will be deducted. See “Taxation” for additional information. It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some of the value of the distribution.*

Shares. The depositary may distribute additional ADSs representing any shares we distribute as a dividend or free distribution. The depositary will only distribute whole ADSs. It will sell shares which would require it to deliver a fraction of an ADS (or ADSs representing those shares) and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new shares. The depositary may sell a portion of the distributed shares (or ADSs representing those shares) sufficient to pay its fees and expenses in connection with that distribution.

Rights to purchase additional shares. If we offer holders of our securities any rights to subscribe for additional shares or any other rights, the depositary may (i) exercise those rights on behalf of ADS holders, (ii) distribute those rights to ADS holders or (iii) sell those rights and distribute the net proceeds to ADS holders, in each case after deduction or upon payment of its fees and expenses. To the extent the depositary does not do any of those things, it will allow the rights to lapse. *In that case, you will receive no value for them.* The depositary will exercise or distribute rights only if we ask it to and provide satisfactory assurances to the depositary that it is legal to do so. If the depositary will exercise rights, it will purchase the securities to which the rights relate and distribute those securities or, in the case of shares, new ADSs representing the new shares, to subscribing ADS holders, but only if ADS holders have paid the exercise price to the depositary. U.S. securities laws may restrict the ability of the depositary to distribute rights or ADSs or other securities issued on exercise of rights to all or certain ADS holders, and the securities distributed may be subject to restrictions on transfer.

Other Distributions. The depositary will send to ADS holders anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ADSs) to ADS holders unless it receives satisfactory evidence from us that it is legal to make that distribution. The depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution. U.S. securities laws may restrict the ability of the depositary to distribute securities to all or certain ADS holders, and the securities distributed may be subject to restrictions on transfer.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. *This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.*

Deposit, Withdrawal and Cancellation

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposits shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons that made the deposit.

Except for ordinary shares deposited by us in connection with this offering, no shares will be accepted for deposit during a period of 180 days after the date of this prospectus. The 180-day lock-up period is subject to adjustment under certain circumstances as described in the section entitled “Shares Eligible for Future Sale — Lock-up Agreements.”

How can ADS holders withdraw the deposited securities?

You may surrender your ADSs for the purpose of withdrawal at the depositary’s office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the shares and any other deposited securities underlying the ADSs to the ADS holder or a person the ADS holder designates at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its office, if feasible. The depositary may charge you a fee and its expenses for instructing the custodian regarding delivery of deposited securities.

How do ADS holders interchange between certificated ADSs and uncertificated ADSs?

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send to the ADS holder a statement confirming that the ADS holder is the registered holder of uncertificated ADSs. Upon receipt by the depositary of a proper instruction from a registered holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to the ADS holder an ADR evidencing those ADSs.

Voting Rights

How do you vote?

ADS holders may instruct the depositary how to vote the number of deposited shares their ADSs represent. If we request the depositary to solicit your voting instructions (and we are not required to do so), the depositary will notify you of a shareholders' meeting and send or make voting materials available to you. Those materials will describe the matters to be voted on and explain how ADS holders may instruct the depositary how to vote. For instructions to be valid, they must reach the depositary by a date set by the depositary. The depositary will try, as far as practical, subject to the laws of the Cayman Islands and the provisions of our articles of association or similar documents, to vote or to have its agents vote the shares or other deposited securities as instructed by ADS holders. If we do not request the depositary to solicit your voting instructions, you can still send voting instructions, and, in that case, the depositary may try to vote as you instruct, but it is not required to do so.

Except by instructing the depositary as described above, you won't be able to exercise voting rights unless you surrender your ADSs and withdraw the shares. However, you may not know about the meeting enough in advance to withdraw the shares. If we timely requested the depositary to solicit your instructions but no instructions are received by the depositary from an owner with respect to any of the deposited securities represented by the ADSs of that owner on or before the date established by the depositary for such purpose, the depositary shall deem that owner to have instructed the depositary to give a discretionary proxy to a person designated by us with respect to such deposited securities, and the depositary shall give a discretionary proxy to a person designated by us to vote such deposited securities. However, no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter if we inform the depositary we do not wish such proxy given, substantial opposition exists or the rights of holders of the ordinary shares would be materially and adversely affected.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that you may not be able to exercise voting rights and there may be nothing you can do if your shares are not voted as you requested.*

In order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to Deposited Securities, if we request the depositary to act, we agree to give the depositary notice of any such meeting and details concerning the matters to be voted upon at least 45 days in advance of the meeting date.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until those taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your American Depositary Shares to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

Tender and Exchange Offers; Redemption, Replacement or Cancellation of Deposited Securities

The depositary will not tender deposited securities in any voluntary tender or exchange offer unless instructed to do by an ADS holder surrendering ADSs and subject to any conditions or procedures the depositary may establish.

If deposited securities are redeemed for cash in a transaction that is mandatory for the depositary as a holder of deposited securities, the depositary will call for surrender of a corresponding number of ADSs and distribute the net redemption money to the holders of called ADSs upon surrender of those ADSs.

If there is any change in the deposited securities such as a sub-division, combination or other reclassification, or any merger, consolidation, recapitalization or reorganization affecting the issuer of deposited securities in which the depositary receives new securities in exchange for or in lieu of the old deposited securities, the depositary will hold those replacement securities as deposited securities under the deposit agreement. However, if the depositary decides it would not be lawful and to hold the replacement securities because those securities could not be distributed to ADS holders or for any other reason, the depositary may instead sell the replacement securities and distribute the net proceeds upon surrender of the ADSs.

If there is a replacement of the deposited securities and the depositary will continue to hold the replacement securities, the depositary may distribute new ADSs representing the new deposited securities or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

If there are no deposited securities underlying ADSs, including if the deposited securities are cancelled, or if the deposited securities underlying ADSs have become apparently worthless, the depositary may call for surrender of those ADSs or cancel those ADSs upon notice to the ADS holders.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the ADRs without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. *At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.*

How may the deposit agreement be terminated?

The depositary will initiate termination of the deposit agreement if we instruct it to do so. The depositary may initiate termination of the deposit agreement if:

- 60 days have passed since the depositary told us it wants to resign but a successor depositary has not been appointed and accepted its appointment;
- we delist our shares from an exchange on which they were listed and do not list the shares on another exchange;
- we appear to be insolvent or enter insolvency proceedings;
- all or substantially all the value of the deposited securities has been distributed either in cash or in the form of securities;
- there are no deposited securities underlying the ADSs or the underlying deposited securities have become apparently worthless; or
- there has been a replacement of deposited securities.

If the deposit agreement will terminate, the depositary will notify ADS holders at least 90 days before the termination date. At any time after the termination date, the depositary may sell the deposited securities. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, unsegregated and without liability for interest, for the pro rata benefit of the ADS holders that have not surrendered their ADSs. Normally, the depositary will sell as soon as practicable after the termination date.

After the termination date and before the depositary sells, ADS holders can still surrender their ADSs and receive delivery of deposited securities, except that the depositary may refuse to accept a surrender for the purpose of withdrawing deposited securities if it would interfere with the selling process. The depositary may refuse to accept a surrender for the purpose of withdrawing sale proceeds until all the deposited securities have been sold. The depositary will continue to collect distributions on deposited securities, but, after the termination date, the depositary is not required to register any transfer of ADSs or distribute any dividends or other distributions on deposited securities to the ADSs holder (until they surrender their ADSs) or give any notices or perform any other duties under the deposit agreement except as described in this paragraph.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depositary; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if we are or it is prevented or delayed by law or circumstances beyond our or its control from performing our or its obligations under the deposit agreement;
- are not liable if we or it exercises discretion permitted under the deposit agreement;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement, or for any special, consequential or punitive damages for any breach of the terms of the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other person;
- are not liable for the acts or omissions of any securities depository, clearing agency or settlement system; and
- may rely upon any documents we believe or it believes in good faith to be genuine and to have been signed or presented by the proper person.

In the deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

Requirements for Depositary Actions

Before the depositary will deliver or register a transfer of ADSs, make a distribution on ADSs, or permit withdrawal of shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver ADSs or register transfers of ADSs when the transfer books of the depositary or our transfer books are closed or at any time if the depositary or we think it advisable to do so.

Your Right to Receive the Shares Underlying your ADSs

ADS holders have the right to cancel their ADSs and withdraw the underlying shares at any time except:

- when temporary delays arise because: (i) the depositary has closed its transfer books or we have closed our transfer books; (ii) the transfer of shares is blocked to permit voting at a shareholders' meeting; or (iii) we are paying a dividend on our shares;
- when you owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-release of ADSs

The deposit agreement permits the depositary to deliver ADSs before deposit of the underlying shares. This is called a pre-release of the ADSs. The depositary may also deliver shares upon cancellation of pre-released ADSs (even if the ADSs are canceled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying shares are delivered to the depositary. The depositary may receive ADSs instead of shares to close out a pre-release. The depositary may pre-release ADSs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the depositary in writing that it or its customer owns the shares or ADSs to be deposited; (2) the pre-release is fully collateralized with cash or other collateral that the depositary considers appropriate; and (3) the depositary must be able to close out the pre-release on not more than five business days' notice. In addition, the depositary will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the depositary may disregard the limit from time to time if it thinks it is appropriate to do so.

Direct Registration System

In the deposit agreement, all parties to the deposit agreement acknowledge that the Direct Registration System, also referred to as DRS, and Profile Modification System, also referred to as Profile, will apply to the ADSs. DRS is a system administered by DTC that facilitates interchange between registered holding of uncertificated ADSs and holding of security entitlements in ADSs through DTC and a DTC participant. Profile is feature of DRSs that allows a DTC participant, claiming to act on behalf of a registered holder of uncertificated ADSs, to direct the depositary to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depositary of prior authorization from the ADS holder to register that transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the deposit agreement understand that the depositary will not determine whether the DTC participant that is claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery as described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the deposit agreement, the parties agree that the depositary's reliance on and compliance with instructions received by the depositary through the DRS/Profile system and in accordance with the deposit agreement will not constitute negligence or bad faith on the part of the depositary.

Shareholder communications; inspection of register of holders of ADSs

The depositary will make available for your inspection at its office all communications that it receives from us as a holder of deposited securities that we make generally available to holders of deposited securities. The depositary will send you copies of those communications or otherwise make those communications available to you if we ask it to. You have a right to inspect the register of holders of ADSs, but not for the purpose of contacting those holders about a matter unrelated to our business or the ADSs.

Significant Subsidiaries of the Registrant

Subsidiaries	Place of Incorporation
Yintech Financial Holdings Company Limited	British Virgin Islands
Yintech Gold Company Limited	British Virgin Islands
Yintech Ventures Company Limited	British Virgin Islands
Yintech Enterprise Company Limited	British Virgin Islands
Yintech Elements Company Limited	British Virgin Islands
Forthright International Holdings Limited	British Virgin Islands
OTS Capital Management (Cayman) Limited	Cayman Islands
Gold Master (HK) Company Limited	Hong Kong
Yintech Ventures (HK) Company Limited	Hong Kong
Yintech Enterprise (HK) Company Limited	Hong Kong
Yintech Elements (HK) Company Limited	Hong Kong
Forthright Financial Holdings (HK) Company Limited	Hong Kong
Forthright Securities (HK) Company Limited	Hong Kong
OTS Capital Management (HK) Limited	Hong Kong
Shanghai Ming Qin Information Technology Company Limited	People's Republic of China
Shanghai Gold Master Network Financial Information Service Company Limited	People's Republic of China
Shanghai Hai Fan Information Technology Company Limited	People's Republic of China
Shanghai Die Xiao Information Technology Company Limited	People's Republic of China
Shanghai Jin Yi Information Technology Company Limited	People's Republic of China
Shanghai Yintech Investment Group Company Limited	People's Republic of China
Shanghai Yin Sai Computer Technology Company Limited	People's Republic of China
Shanghai Yin He You Information Technology Company Limited	People's Republic of China
Shanghai Gold Master Network Technology Company Limited	People's Republic of China
Shanghai Xie Luo Information Technology Company Limited	People's Republic of China
Variable Interest Entity	
Shanghai Ran Yu Information Technology Co., Ltd.	People's Republic of China
Shanghai Bei Xun Industrial Co., Ltd.	People's Republic of China
Guangdong Hong Feng Co., Ltd.	People's Republic of China
Shanghai Chun Da Asset Management Company Limited	People's Republic of China
Dalian Shun Fu Hui Business Information Consulting Service Company Limited	People's Republic of China

Certification by the Principal Executive Officer**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Wenbin Chen, certify that:

1. I have reviewed this annual report on Form 20-F of Yintech Investment Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Intentionally omitted];
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2020

By: /s/ Wenbin Chen

Name: Wenbin Chen

Title: Chief Executive Officer

Certification by the Principal Financial Officer**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Di Qian, certify that:

1. I have reviewed this annual report on Form 20-F of Yintech Investment Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Intentionally omitted];
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2020

By: /s/ Di Qian

Name: Di Qian

Title: Chief Financial Officer

Certification by the Principal Executive Officer**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Yintech Investment Holdings Limited (the “Company”) on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Wenbin Chen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2020

By: /s/ Wenbin Chen

Name: Wenbin Chen

Title: Chief Executive Officer

Certification by the Principal Financial Officer**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Yintech Investment Holdings Limited (the “Company”) on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Di Qian, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2020

By: /s/ Di Qian

Name: Di Qian

Title: Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

The Board of Directors

Yintech Investment Holdings Limited:

We consent to the incorporation by reference in the registration statement (No. 333-212926) on Form S-8 of Yintech Investment Holdings Limited of our report dated April 27, 2020, with respect to the consolidated balance sheets of Yintech Investment Holdings Limited as of December 31, 2018 and 2019, and the related consolidated statements of comprehensive income/ (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes, which report appears in the December 31, 2019 annual report on Form 20-F of Yintech Investment Holdings Limited.

KPMG Huazhen LLP

/s/ KPMG Huazhen LLP
Shanghai, China
April 27, 2020
